U.S. and Allied Wartime and Postwar Relations and Negotiations With Argentina, Portugal, Spain, Sweden, and Turkey on Looted Gold and German External Assets and U.S. Concerns About the Fate of the Wartime Ustasha Treasury

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Supplement to
Preliminary Study on U.S. and Allied Efforts To Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II

Coordinated by Stuart E. Eizenstat
Under Secretary of State for Economic, Business, and Agricultural Affairs

Prepared by William Slany, The Historian
Department of State

With the Participation of

Central Intelligence Agency
Department of Commerce
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Foreword

This supplementary report, like our preliminary study completed in May 1997, reflects a solemn commitment by the United States to confront the largely hidden history of Holocaust-related assets after five decades of neglect. We have pursued this goal on twin tracks: first, we have made accessible a massive body of documents and conducted research to fill in the historical record on the role of the U.S. Government and other governments during and after World War II; second, in consultation with governments and non-governmental organizations (NGOs) on both sides of the Atlantic, we have pushed ahead with a series of diplomatic initiatives to ensure that the completion of this historical record is coupled with an attempt to do justice, however belatedly, in order to honor the memory of the victims and to lift the lives of the survivors of the Holocaust.

The United States is undertaking this multi-faceted effort to help complete the unfinished business of the Second World War under the leadership of President Clinton. His decision to commit the authority and dedicate the resources of the U.S. Government to this effort rests on understandings shared by Americans of all backgrounds and faiths. One is the enduring importance and poignancy that these events still have to our nation and the world, even after half a century. The other is a willingness to examine critically our own record, even in light of the overwhelming contribution America made to winning World War II, while we ask other nations to do the same.

It is in this spirit that we launched our interagency historical research effort in September 1996. Pioneering work was already being done on these issues by organizations such as the World Jewish Congress. We also gained encouragement from the bipartisan interest demonstrated by leading members of the U.S. Congress. Together, these organizations and individuals set the pace for advancing our twin commitments to history and justice.

We recognized that the U.S. Government had in its possession a tremendous amount of information bearing on looted assets, including the emotionally-charged but little understood issue of "Nazi Gold." On the basis of more than 15 million pages of documents, nearly one million of which were newly declassified, we resolved to piece together for the first time the story of Nazi Gold and looted assets from the perspective of the U.S. Government. We did so by establishing the facts about the policies pursued and the actions taken by the United States and our Allies in two broad contexts: our significant efforts, together with Great Britain, to deny Nazi Germany the economic capacity to wage war; and our postwar attempts to recover the gold looted by the Nazis from both the central banks of occupied countries and individual victims, and to liquidate other German assets in the neutral countries of Europe.

Our preliminary study was prepared by the dedicated chief Historian of the State Department, Dr. William Slany, in cooperation with ten other agencies of the U.S. Government and released in May 1997. We concluded then that:

- The German Reichsbank, as a deliberate policy and major means of financing the War, knowingly incorporated into its gold reserves looted monetary gold from the central banks of countries occupied by the Nazis;
- Vast amounts of looted gold left the Reichsbank and passed primarily through Switzerland and the Swiss National Bank, and to a lesser extent through other wartime neutral countries, where it was converted into hard currency to finance the German war effort;
- Some victim gold—confiscated or extracted brutally from victims of Nazi persecution, including those sent to concentration camps—was knowingly incorporated by the Reichsbank

into its reserves and sold by the Reichsbank abroad during the War. Some of the victim gold remaining in the Reichsbank's reserves at the end of the War, along with other victim gold, was transferred by the United States into the Tripartite Gold Commission's "gold pool" (established by the United States, Britain, and France in 1946) and returned along with monetary gold to formerly occupied countries;

- After the War, a combination of recalcitrance and indifference on the part of the neutral nations and conflicting priorities on the part of the Allies—particularly the need to rebuild a war-torn Europe and assemble a Western coalition against Soviet aggression with the onset of the Cold War—led to an insufficient recovery of looted gold and other assets. These factors diminished the amount of such assets available for reconstruction and for the benefit of stateless refugees and other surviving victims of the War and Holocaust.

Our most significant findings were the overall movement of looted gold flowing to and through Switzerland from Germany; that the Swiss National Bank must have known that some portion of the gold it was receiving from the Reichsbank was looted from occupied countries; and that the gold received by the Swiss National Bank from the Reichsbank included some stolen from Holocaust victims, although there is no evidence that the Swiss National Bank knew this fact. These findings were confirmed by the bold and probing gold report that Switzerland's Bergier Commission presented initially at the London Nazi Gold Conference in December 1997 and now by its more conclusive report released on May 25, 1998. That report established even higher figures for gold looted from central banks and individual victims. Our report estimated gold moving to or through Switzerland in a range between $185-$289 million ($1.3-$2.4 billion in today's values); the Bergier Commission's final report puts the total amount of gold transferred to or through Switzerland at around $444 million (almost $4 billion in today's values). The Bergier Commission also estimated that about $82 million of the total Reichsbank gold holdings during the War (or about $700 million in today's values) was taken from individuals, including $2.9 million ($25 million today) from Nazi victims.

Scope of This Study

Although Switzerland figured prominently in our preliminary study because the focus was on gold looted by the Nazis and the use of that gold in financing Germany's wartime trade, brief sections on Argentina, Portugal, Spain, Sweden, and Turkey were included as well. Further research has allowed us to provide a more detailed analysis of the economic roles played by these wartime neutrals and the factors that shaped those roles. We have focused on these countries' trading links with both the Axis and the Allies, as well as on their handling of looted assets—especially gold. We particularly wanted to make greater use of newly-declassified U.S. records in order to reconstruct with sharper clarity U.S. wartime policy toward and postwar negotiations with these countries. It is our hope that this supplementary study embodying the further work done by Dr. Slany and his team accomplishes these core objectives.

Now we have a clearer view of the full picture. This supplementary report supports and builds on the conclusions reached in the preliminary report. When considered together, the two studies provide a comprehensive view from the U.S. perspective of the part the neutrals played in the systematic financing and acquisition of materials vital to the German war effort. The looted gold received mostly by Switzerland was either exchanged for currency or used directly to finance Germany's purchases of essential materials for its war machine: wolfram from Portugal and Spain; ball-bearings and iron ore from Sweden; and chromite ore from Turkey. Each of these countries, in its own way, played an important part in the structure of the German war economy.

The two studies considered together also provide a more nuanced view than our initial study alone of the variety of forms neutrality took during World War II. Different countries contributed to the German war effort in different ways at different times; these different roles reflected both their distinctive history, geography, previous relationships with the wartime belligerents and, in the case of Sweden and Switzerland, long-standing traditions of neutrality. In particular, this new study conveys a sharper sense of how the severe pressures and counter-pressures faced by the European countries referred to loosely as "neutrals" throughout this report* led each to make choices in ways that dispel any monolithic view of neutrality during the Second World War.

There are two chapters which do not fit easily within the scope of the report. One is the Argentina chapter. Argentina conducted far more trade with the Allies than with the Axis; moreover, it was never determined that Argentina received any Nazi gold and its status as an Ally in the closing months of the War gave it the same rights as the other American Republics to dispose of German assets within its borders. Nonetheless, Argentina is included in the report because of the fascist leanings of some of its wartime leaders, its role as the center in the Western Hemisphere for Germany's espionage, propaganda, and smuggling activities, and because of long-standing suspicions that Nazi-looted gold and other looted assets ended up there.

The other chapter whose inclusion in this report requires explanation is the short chapter addressing the fate of the Croatian Ustasha treasury, which also touches on the Vatican. The Ustasha puppet regime was not neutral and therefore different from the countries that are the main subjects of the report. We became aware that the U.S. Government possessed important documents bearing on Ustasha gold in particular, although much of this intelligence information is incomplete and has not been verified. Despite the limitations of our sources and the fact that even in light of our research, the postwar disposal of the wartime Croatian treasury remains obscure, the chapter nonetheless adds to the public record on the subject of monetary gold looted from Croatia as well as on victim gold. The chapter raises questions about aspects of the Vatican's record during and immediately after the War, to which answers may only exist in Vatican archives.

While our completion of a more comprehensive view of the role of the neutral nations in the Nazi war economy and our emphasis on the complexities of neutrality are the most significant dimensions of this study, some new findings on the issue of victim gold are the most dramatic. Since the release of our preliminary study last spring, new sources have come to light that provide additional information about the Melmer account at the Reichsbank, in which the SS deposited the gold and other valuables that it looted from individual citizens and from its victims at killing centers and concentration camps. These sources provide the most detailed data currently available for the value of the gold in the Melmer account and yield an estimate for the total value of this gold ($4.6 million in wartime value, $40.5 million in today's gold values) that is markedly higher than previous estimates. These sources also provide further details about the role played by German commercial banks and industrial smelters in the conversion of personal property looted from the

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*The long-standing legal understanding of "neutrality" underwent fundamental revision—still evolving—as a consequence of the momentous changes in international political and economic relationships in this century, particularly as a result of the experience of World War II. Neutral nations encountered great difficulty in maintaining their rights toward belligerent nations and allowed violations of traditional obligations of neutrality. During the War some neutral nations claimed a status of 'non-belligerency"—a new concept somewhere between belligerency and neutrality. For a brief analysis of the definitions of "neutrality" and "non-belligerency" during World War II, see the Note on Neutrality printed on page xxxiii below.

victims of Nazi persecution. Our team studied these documents as well as the records of the Degussa company in Germany which, along with the Prussian Mint, resmelted looted monetary and victim gold into disguised gold bars. This new material is presented as a separate annex prepared by the U.S. Justice Department's Office of Special Investigations.

Our perspective in each chapter offers a panoramic but certainly not an omniscient view. While this supplementary report adds a wealth of new detail to the record of what U.S. policy-makers, negotiators, intelligence officers, and other American officials saw, thought, and did, we can only know fully about key actors in other countries through records at their own disposal and studies which they may do. With this important caveat in mind, it is our hope that our two U.S. Government interagency reports together contribute significantly to the completion of the historical record on these complex events.

Like our preliminary report, this one, also prepared by historians, is dispassionate in its analysis and unflinching in its determination to discern all the dimensions of the facts our sources reveal. Once again, we have sought neither to defend nor indict any nation today on the basis of its actions half a century ago. This is a commitment we have taken seriously given the nature of the relationships the United States has with each of the governments whose predecessors are the focus of the report. It is our hope that any perceptions that may arise from this report that we are singling out others for negative scrutiny is offset by the recognition that we have examined our own historical record with the same commitment to establish the truth and, where justified, acknowledge our own shortcomings.

Historical Conclusions

First, "neutrality" was not a monolithic concept during World War II; it took different forms in different countries for different reasons. The wartime neutrals often faced similar pressures and counter-pressures but reacted to them in varied ways, reflecting their specific wartime circumstances, the attitudes of their leaders, and the more enduring features of their own economies and geography.

Our analysis highlights the different forms that neutrality took during the War. The actions of the wartime neutrals were so varied as to make any composite model of "neutral" conduct difficult to construct; the circumstances that shaped their choices were sufficiently diverse as to make any single measure of conduct inadequate.

This study demonstrates that with the exception of Argentina, each of the wartime neutrals made a substantial contribution to the economic foundations of the Nazi war effort. Apart from that key similarity, the differences between them loom larger. There was no such thing as a uniform or absolute neutrality during World War II. The ideological leaning of Franco's regime in Spain was clear and unmistakable; Franco's dispatch of the Blue Division to join the Wehrmacht at the Russian front underscores this pro-Axis tilt. So, too, leading members of the Argentine military regimes were also openly sympathetic to the Axis. Sweden's permission for German troops to regularly transit its territory and to protect German shipping in the Baltic were hardly "neutral" acts; neither was Portugal's granting access to the British to bases in the Azores, even though it was a welcome and important contribution to the Allied war effort.

Although there were many differences, the European wartime neutrals shared a common challenge in the form of extraordinarily difficult pressures from Nazi Germany, along with other counter-pressures by the Allies, which together forced implacable choices on each country. To varying degrees, each faced the threat of German military action, putting at risk its sovereignty and the survival of its population: Switzerland and Sweden faced the greatest threats for the longest

period; Spain, Portugal, and Turkey faced lesser but not insignificant threats. Each of the neutrals was on the one hand confronted by Hitler's determination to exploit its strategic vulnerabilities and economic resources in order to support his war effort, and on the other by concerted efforts on the part of the Allies through preclusive purchasing of key war supplies and, later, through ultimatums, to curtail exports to Germany. Each was then confronted by the problem of whether and when to curtail that trade with Germany, both in the face of Allied pressure and in light of perceptions of the remaining threat of German invasion late in the War. None of the wartime neutrals responded to these extraordinary pressures similarly, or even in ways that were internally consistent.

In part by reason of distance from the European theater of war, Argentina played a less significant role than any of the other wartime neutrals. Argentina could be described best as a neutral since it traded with both sides despite its military leaders' ideological sympathy with Nazi Germany. Unlike the other neutrals, Argentina could not claim either *force majeure* (superior force) or economic necessity as justification for its neutrality, since it was under no threat from Germany and could expect no significant benefit from Germany. Alone among the nations of the Western Hemisphere, Argentina refused to line up with the United States against the Axis until 1944. A small minority of Argentines, including some of the leaders of the military governments that ruled the country after mid-1943, actually favored Germany during the War; for most Argentine supporters of neutrality, however, that policy was a symbol of Argentina's sovereignty and of its defiance of Washington's attempt to impose political hegemony in the Western Hemisphere. The fact that Argentina's governments did not restrict the activities of Axis agents permitted the country to become a center for Axis espionage and propaganda. While Argentina did not engage in any significant trade with the Axis, Buenos Aires served as one of the principal Western Hemisphere ports through which small (but to American officials, vital) quantities of important materials such as platinum were smuggled to Nazi Germany. Argentina conducted much more substantial trade during the War with the Allies, including critical exports of meat to Great Britain.

Franco's Spain began the War as an avowed non-belligerent, and only in October 1943 did it formally declare neutrality. Franco and his government openly sympathized with Hitler and Mussolini ideologically and out of gratitude for their support against the Republican forces during the Spanish Civil War. Franco permitted a full-fledged fighting force, the Blue Division, to join the Wehrmacht as the 250th Division in the German order of battle on the Eastern front against the Red Army. Early in the War Franco allowed German U-boats to resupply and refuel covertly at Cadiz and Vigo, but withdrew this permission in the face of fierce protests from the Allies. Spain, like Portugal, supplied Germany with wolfram, a crucial ingredient for the Nazi war effort, as well as food and other goods, and used the profits to make payments on the debt incurred during the recent Civil War. Spain's economy remained ravaged by the recent Civil War, however, and the wolfram trade did little to improve life for its people. Wolfram exports to Germany continued until the Allies were forced to use a combination of economic carrots and sticks to compel Franco to curtail it.

The wartime actions of Portugal and Turkey were more similar to each other than to any of the other neutrals, despite their geographic positions on opposite peripheries of the European continent. Both had long-standing ties to the Allies and conducted substantial trade with them, while also providing indispensable exports to the Axis.

Portugal had a centuries-old alliance with Britain, which influenced its conduct during the War, and thus could be described at one level as a pro-Allied neutral. And yet Portugal carefully maintained a balance in its trade between the Allies and the Axis, which worked to its great

advantage as both sides paid inflated prices for wolfram. Portugal profited so much from the wolfram trade that it maintained its wolfram exports to Germany well into 1944 in the face of growing pressure from the Allies—especially the British—to curtail that trade, which was far more important to the German war effort than to that of the Allies.

Turkey's self-described "active neutrality" balanced its wartime economic relations with both the Allies and the Axis and provided clear and substantial profits for the Turkish economy. Turkey remained a non-belligerent from the fall of France in June 1940 until it declared war on Germany in February 1945 in the closing months of the War when the defeat of Nazi Germany was clear, and Turkey's entry was of little military consequence. Turkey continued to feel bound by the Tripartite Anglo-French-Turkish Alliance of 1939 even while concluding a June 1941 Turkish-German treaty of friendship. Even after the fall of France in June 1940, Turkey balanced these apparently contradictory commitments into 1944, together with substantial commercial ties to Germany (especially its exports of critically needed chrome ore), despite continuing Allied efforts to persuade it to join the War against Germany. During the War, Turkey was the only neutral nation to modernize its military with arms from both Germany and the Allies.

Sweden and Switzerland shared two key elements in common: one reflecting the military circumstances they faced in World War II; the other the distinctive and enduring character of each country's tradition of neutrality. Sweden and Switzerland were encircled by German forces through most of the War; they were probably the two wartime neutrals whose territory was most clearly threatened by German invasion and whose national survival was most clearly at stake. This encirclement constrained their ability to trade freely in order to sustain their economies. They were also committed neutrals as matters of long-standing national security policy well predating the War (a stance that continues to this day), making neutrality a reflection of principle as well as circumstance for both countries.

Sweden was clearly among the most helpful of the neutral countries to the German war effort. Not only did it supply Germany with critical war supplies (iron ore and ball-bearings) and receive substantial amounts of looted gold, but it gave the Germans significant transit rights across its territory to reach Finland in order to fight against Soviet occupation forces, as well as to facilitate the occupation of Norway. German soldiers on rotation to and from the war front made about 250,000 trips across Swedish territory before permission was withdrawn, under heavy pressure from the Allies, in August 1943. Moreover, the Swedish Navy escorted German convoys in the Baltic. The Allies understood but did not fully accept the pressure on Sweden from the proximity of German forces. Once the tide of battle changed, Sweden was relatively more responsive to Allied pressure to curtail its trade with the Germans than most of the other neutrals.

Switzerland's tradition of neutrality dates back to the sixteenth century and was later recognized by the international community at the Congress of Vienna in 1815. Landlocked and surrounded by Axis forces, it had an even tighter noose around its neck than Sweden. Switzerland's military preparedness and doggedness in defending its territory and airspace had some effect on the German decision not to invade. Nevertheless, Switzerland's status as a neutral allowed it to help Germany finance its war effort by accepting looted Nazi gold for Swiss currency that Germany used to buy strategic materials from other nations. But for all the attention focused in our preliminary study on Switzerland's pivotal role in this regard, it is important to point out that Switzerland also conducted gold transactions during the War with the Allies that exceeded the value of those it conducted with Germany. It should also be noted that its export of some important war supplies to Germany such as ball-bearings and anti-aircraft guns were of far less strategic importance than the matériel supplied by Portugal, Spain, Sweden, and Turkey.

As we complete these observations on the different forms neutrality took during the War, it is important to make a distinction between governments and public opinion. There appears to have been a clear preponderance of sympathy for the Allied cause in several of these countries, and significant elements of sympathy in the others:

- In Argentina, despite the Axis leanings of some of its wartime military leaders, strong cultural and commercial ties with Great Britain anchored pro-Allied sentiments.
- Portugal's centuries-old ties with Britain were evident in widespread popular support for Britain and served as a check on whatever ideological sympathy the Salazar dictatorship had with the Axis cause.
- Spain, with its brutal civil war having ended just before the outbreak of World War II, was the country with perhaps the sharpest divisions between its government and significant segments of its people. While Franco and his supporters sympathized with the Axis, the defeated and suppressed Republicans were clearly pro-Allied in their sympathies, and the large population of Spanish Communists identified with the Soviet Union.
- The Swedish public was divided and in part ambivalent, although there was substantial sympathy for the Allies. There was also clear support for the Germans on the political right and among elements of the military, along with instances of "aryanization" of Swedish businesses and cultural institutions, which have received little attention until recently.
- The two overriding sentiments shaping Turkish public opinion were that Turkey had nothing to gain by entering the War and that it should enter only to protect its own sovereignty. The Soviet Union, rather than Nazi Germany, was widely regarded as the greater threat to Turkish sovereignty and security.
- Finally, as noted in the Foreword to our first preliminary study, the Swiss people were overwhelmingly sympathetic to the Allies, even against the backdrop of Switzerland's strict neutrality.

This study focuses on the wartime records of governments, not peoples. That substantial segments of the publics in each of these countries may have lacked sympathy with their governments' wartime policies only adds to the extraordinary complexity of neutrality during the Second World War.

Second, different factors shaped the "neutrality" of Argentina, Portugal, Spain, Sweden, Switzerland, and Turkey, ranging from long-standing policies of avoiding entanglements in European wars to the fear of invasion and the desire to reap economic rewards. These interests, in turn, produced decisions and actions which were at various times both consistent and inconsistent with their claims of neutrality. These inconsistent actions were at times helpful to Nazi Germany and at other times helpful to the Allies. These decisions and actions were often based on their own strictly legal interpretations of what was permissible under existing international law, as distinct from moral considerations of what was right or wrong. All these seemingly inconsistent actions co-existed and contributed to the complex phenomenon of neutrality during World War II—a war which was in many ways different from previous wars because of the unprecedented scope of the assault on human values and the horrors of the Holocaust.

The international community's standards of morality and proper conduct have evolved since the end of World War II. The searing experience of the War itself, the Holocaust which it wrought, the Nuremberg trials, and the adoption of the Universal Declaration of Human Rights

together injected a new moral content into accepted international norms of conduct. In their attempts to dissuade the "neutrals" from continuing to trade with Nazi Germany, and in their postwar efforts to recover looted gold and liquidated German assets, the Allies were often frustrated by the neutrals' legalistic justifications for their actions. Indeed, international law did not always afford a basis for their demands on the neutrals, compelling the Allies to base their arguments on higher "moral" grounds.

There are a number of questions that should be addressed today by all the nations involved in World War II, including the wartime neutrals, questions which can help them come to terms with their role in the War. For example, at what point during World War II did it become evident that Nazi aggression was not just another in an endless series of European wars, but was qualitatively different in its brutal treatment of civilians and its threat to basic human values? At what point did the threat of a Nazi invasion recede sufficiently so that with little risk, trade with Germany in critical commodities could have been sharply curtailed or stopped? If neutrality was defended during the War as a way of self-defense, why was there so little cooperation with the Allies after the War in returning looted Nazi assets which had come into the possession of the wartime neutrals or in liquidating German assets for the benefit of stateless refugees and the reconstruction of war-torn Europe? These are difficult questions to which there are no easy or certain answers, with or without the benefit of hindsight.

The severe pressures under which the neutrals made their choices during the Second World War should remind us that even in this century's most stark armed confrontation with evil incarnate, there were no easy choices for countries to make. This is an important realization for Americans to keep in mind as we recall that for twenty-seven months, as Hitler overran one country after another in Europe, the United States remained formally neutral until the Japanese attack on Pearl Harbor—although we provided substantial Lend-Lease assistance to Britain during its early, lonely stand against Nazi Germany and provided no assistance to Germany. Moreover, as we acknowledged in the Foreword to our preliminary report and as the display panels at the U.S. Holocaust Memorial Museum in Washington make so painfully clear, America's response to the early stages of the slaughter of European Jews was largely one of indifference. Our record of turning back refugees early in the War reflects that sad fact. During World War II, the United States accepted only 21,000 refugees from Europe as our restrictive quotas were not significantly raised or even filled—far less per capita than many of the European neutral countries and fewer in absolute terms than Switzerland.

The complex decisions taken by each wartime neutral country were shaped perhaps most fundamentally by its place on the map of war. In many real ways, neutrality allowed at least Sweden and Switzerland to avoid invasion and their peoples to survive. Alone among the neutrals, Switzerland was totally encircled by the Axis powers and the countries they occupied. This was virtually the case for Sweden, which bordered on two countries occupied by the Nazis (Norway and Denmark) and a third, Finland, which had joined the German campaign against the Soviet Union, while its Baltic and shorter North Sea coasts were essentially controlled by the German Navy until late in the War. This was not implausibly the case for Turkey with the potential threat posed to it by Germany and to a lesser extent by the Soviet Union.

The argument that national survival depended on neutrality is more difficult to apply to the two Iberian countries. Franco's pro-Nazi tilt diminished Hitler's need to invade Spain despite the strategic benefits he could have gained by extending Axis control to the Rock of Gibraltar and choking the British naval presence in the western Mediterranean. Portugal was further insulated from a German invasion, especially after Spain's declaration of formal neutrality in October 1943; its nearest border was about two hundred sixty miles west from occupied France across northern

Spain. Argentina faced no such threat (despite the dramatic appearance and subsequent scuttling of the German pocket battleship *Graf Spee* in the Rio de la Plata in late 1939).

In maintaining substantial economic relationships with Nazi Germany, the neutral countries could point to the time-honored international concept that neutrals were free to trade with all combatants. They could also argue that their trade with the Germans helped to forestall an invasion that would have made their key industries and entire economies totally captive to the German war machine. Moreover, they could reasonably point out that the ability of the United States and Britain to engage in aggressive preclusive purchasing arrangements with them gave the Allies the chance to monitor, regulate, and in effect limit the volume of key war supplies exported to Germany while benefiting from extra supplies of these materials.

Their trade with the Allies was also helpful. Argentine meat exports helped to feed wartime Britain. Portuguese wolfram, as critical as it was to the German war machine, was exported in greater quantities to the Allies than to the Axis. But this balance of trade masked other facts.

The neutrals' key exports were not philanthropic contributions; they were commercial transactions which benefited the neutral countries tremendously. Moreover, the Allies conducted much of this trade with the neutrals not because they needed their commodities, which they could purchase elsewhere from other sources, but because they were willing to pay exorbitant prices to deny the Nazis their only source for critical items. In fact, the Germans did not need to invade these neutral countries when they could gain adequate supplies of critical materials without incurring the costs and risks of invasion. Any invasion of the neutrals would also have forced the Germans to fight the Allies on a broader front and risked the disruption of the neutrals' production.

Several of the wartime neutrals also aided the eventual victory of the Allies in ways that would not have been possible had they been overrun and occupied by the Germans, like the other countries of continental Europe. Two strategic contributions were particularly significant. One was Switzerland's willingness to let the OSS (the forerunner of the CIA) use Bern as its major listening post in continental Europe. The other was Portugal's willingness to let the Allies have access to the Azores air base, from which aircraft crossing the Atlantic could be refueled and wide swaths of ocean beyond the reach of other bases patrolled. The two "classic" neutrals made valuable diplomatic contributions to the Allied cause. Best known is Switzerland's role throughout the War as the protecting power for Allied POWs. Less well known is Switzerland's role in bringing together the Allies and representatives of German forces in northern Italy, helping to speed the capitulation of those forces a few days before the general surrender in the spring of 1945. Both Switzerland and Sweden made available their diplomatic communications channels to spur Japan's final agreement to the surrender terms presented by the Allies, perhaps shortening the War in the Pacific and saving thousands of lives.

Consistent with this mixed pattern of actions was the refuge offered by the neutral nations to more than 250,000 Jews fleeing the Holocaust. Acts of humanity and even heroism rose above the harshness or insensitivity of wartime refugee policies and reflected well on their governments and peoples.

An estimated 100,000 refugees, mostly Jews, fled through or into the Iberian peninsula. Spain allowed 20,000 to 30,000 refugees to cross the French border from the fall of France until the summer of 1942, and another 7,500 refugees entered Spain by the end of 1944. Spain also gave protection to 4,000 Jews of Spanish descent living in occupied Europe. The Portuguese Government allowed Jewish organizations to relocate from occupied Europe to Lisbon during the War. Although Portugal sought in 1940 to halt the entry of refugees and the issuance of visas for

them, acts of individual bravery allowed some to cross the frontier. A Portuguese diplomat in Bordeaux, Aristides de Sousa Mendes, disobeyed his government's orders and issued 10,000 visas before he was recalled and dismissed. During 1941 and 1942 the Portuguese Government allowed 5,000 refugees to pass through Portugal to the United States.

The same Swedish Government that could escort German convoys in the Baltic could also act heroically by providing refuge for about 7,000 Danish Jews who fled to the safety of Swedish shores. The Swedish Government's most important activities on behalf of European Jews occurred in Hungary in 1944 where Sweden's protection, spearheaded by the actions of Raoul Wallenberg (with funding from the U.S. War Refugeee Board), was extended to 20,000 to 30,000 Jews who faced extermination in the last phase of the Holocaust.

Turkey, which had protected Jews since their expulsion from Spain in 1492 and had a centuries-old tradition of tolerance of its Jewish population, played a significant role in the rescue of Jewish victims of Nazism throughout Eastern Europe. More than 100,000 Jewish refugees are estimated to have passed through Turkey during the War. The Turkish Government sent trucks and ships to neighboring Balkan nations on rescue missions, and Istanbul served as a center of activity by Jewish representatives seeking to arrange for the flight of Jewish victims in Central and Southeastern Europe and to facilitate their onward passage to Palestine.

Argentina received a large number of Jewish refugees between 1933 and 1945. Many of these 25,000 to 45,000 refugees reached Argentina before and during the War, more than any other country in the Western Hemisphere (including the United States).

Switzerland's mixed record on refugees was addressed in the Foreword to the preliminary study. This record included the Swiss Government's request to the Germans to distinguish the passports of refugees or immigrants, leading to the introduction of the odious "J-Stamp," which helped officials turn back thousands of fleeing refugees. (The Swiss Government publicly apologized for this policy in 1995.) Yet it also included admission of over 50,000 Jewish refugees from 1933 until the end of the War, of whom some 30,000 remained and survived in Switzerland during the War. A Swiss vice consul in Budapest, Carl Lutz, acted on his own initiative to provide letters of protection that saved the lives of 62,000 Jews and other targets of Nazi persecution.

It was not just neutral countries that acted in seemingly contradictory or ambiguous ways. Such differences were apparent even within families. There is no better example than the Wallenbergs of Sweden, whose industrial and financial empire dealt with both the Allies and the Axis. The Wallenberg-controlled Enskilda Bank in particular served as a "cloaking" agent for German-owned businesses, including the American subsidiary of Bosch. Yet it was a member of the same extended family, Raoul Wallenberg, who as a young Swedish diplomat performed one of the greatest (and, much later, most celebrated) acts of the entire War.

Third, this report makes clear that whatever their motivations, and however acceptable by the standards of the time for neutrals, the cumulative trade of the World War II European neutral countries helped to sustain the Nazi war effort by supplying key materials to Germany essential to their conduct of the War—in many cases well past the point where, from the Allied perspective at the time, there was a genuine threat of German attack.

The long-standing commerce with Great Britain of Portugal, Spain, Sweden, Turkey, and Argentina grew during the War as did their trade with the United States. Until the last full year of the War these nations (other than Argentina) maintained significant trade with Nazi Germany as well. But for the Allies, the commerce of the European neutral countries with Germany posed

considerable danger by supplying Hitler's war machine with key materials. Beginning in 1943, when the Allies believed that Germany's own supply of several critical commodities would have been exhausted, the Allies repeatedly warned the neutrals—and at times threatened them—to stop trading with Nazi Germany and told them explicitly that they were trafficking in looted gold and other looted assets.

Portugal and Spain together provided Germany with almost 100 percent of Germany's wartime supply of vitally-needed wolfram, the essential mineral in processing tungsten for steel alloys used in machine tools and armaments, especially armor-piercing shells. American and British efforts to curtail or prevent the flow of wolfram to Germany fostered a heated competition that generated great profits for Portugal and to a lesser extent Spain, whose earnings from its wartime trade with Germany eliminated its debt from the Civil War and provided a gold reserve that lasted until 1958. The strategic significance of wolfram was not lost on the Portuguese. Prime Minister Salazar acknowledged in early 1944 that denying wolfram to Germany "would reduce her power of endurance, and the war would be accordingly shortened." The United States and Great Britain predicted at the time that if Germany were deprived of wolfram, its machine-tool industry would virtually shut down within three months, severely diminishing Germany's capacity to continue the War.

Sweden provided Germany's wartime industry with a major portion—in some war years up to 90-100 percent—of its requisite iron ore (including a high proportion of the high-grade ore needed for the production of the specially hardened steel used in German weapons and armored vehicles) and ball-bearings. Early in the War, Allied experts thought that the German war machine could be stopped if supplies of Swedish iron ore, among other key commodities, could be cut off. The Allies also considered ball-bearings to be so important to the German aircraft industry that they carried out a particularly dangerous air campaign in 1943 to cripple Germany's own ball bearing industry—the famous raids on Schweinfurt that were so terribly costly in Allied aircraft and crews. Only in the last year of the War did Allied diplomacy secure the gradual end of Swedish iron ore and ball-bearing exports to Germany.

Turkey conducted a robust commerce with both sides that raised its gold reserves from 27 tons to 216 by the end of 1945. The balance of Turkey's commerce with the two sides had its most strategically meaningful expression in its chromite ore exports, which the Allies attempted to thwart with an extravagant preclusive purchasing program. In 1943, for example, Turkey provided essentially 100 percent of German requirements. According to Hitler's Armaments Minister Albert Speer, the German war machine would have ground to a halt without chromite ore. Indeed, Speer wrote in his memoirs that he told Hitler in November 1943: "Should supplies from Turkey be cut off, the stockpile of chromium is sufficient for only 5-6 months. The manufacture of planes, tanks, motor vehicles, tank shells, U-boats, almost the entire gamut of artillery would have to cease from one to three months after this deadline, since by then the reserves in the distribution channels would be used up."

Because Allied diplomatic efforts did not succeed in persuading the neutral countries to reduce or halt the export of materials critical to the German war effort, the United States and Britain were forced to resort to extensive and expensive preclusive purchasing operations—buying as much as possible of strategic commodities, especially wolfram and chromite ore, at inflationary prices on the open market. These operations to deny these materials to Germany vastly enriched the economies of several of the neutral countries. Ultimately the neutrals' trade with Germany ended only late in the War in part as a consequence of Allied embargoes.

Implicitly or explicitly, the neutrals resisted Allied economic diplomacy and expressed fear of German reprisal if their economic relations were curtailed. This invocation of *force majeure* by the neutrals could not be easily countered by the Allies in the early years of the War when their vulnerability was all too apparent. But the invincibility of the German war machine was belied during 1943 with a series of major defeats that foreshadowed the Allied victory. The Soviet victories at Stalingrad in February and Kursk in June 1943 marked the beginning of the end of the German offensive in Russia. The defeat of the German and Italian forces at El Alamein and the Allied landings in Morocco and Algeria in the closing months of 1942 led to the expulsion of the Axis from North Africa. In September 1943, Sicily had fallen and Allied soldiers landed in southern Italy; by the end of the year, the mounting strength of the Western Allies made it clear that a long-awaited invasion of Western Europe was imminent. The neutral nations recognized the turn of the tide and the receding danger of German attack or reprisal, and began, at Allied demand, to curtail trade and other measures that supported the German war effort. By late 1943, the Allies were less willing to accept neutral claims of the threat of *force majeure* as a reason to justify their continuing economic interaction with the Nazi regime.

Of the continental neutrals, Portugal had the least reason to fear a German invasion, particularly once it became clear that Franco's Spain would not join the Axis. It laid aside its fear of German reprisal in August 1943 when it agreed to allow Britain to use its strategic air field in the Azores Islands, although it continued to export to Germany until 1944.

Despite the potential strategic advantage to Germany of invading Spain or compelling it to join the Axis in order to control the Western Mediterranean, there was little German threat to Spain. Franco's pro-Axis tilt and fears that Germany might garrison Spain receded further in October 1943 when Franco withdrew the Blue Division from the Russian front and publicly announced Spain's turn toward a more genuine neutrality. Even so, its wolfram sales to Germany continued, prompting British Ambassador Hoare to hand Franco a diplomatic note in January 1944 warning that if Spain "persists in giving, intentionally or unintentionally, unneutral assistance to the enemy, long after it is possible for them to plead the excuse of *force majeure*...(the Allies) will not be able...to maintain their present policy toward Spain."

Turkey was alone among the neutrals in having reason to fear aggression from both sides in the conflict: more immediately from German troops stationed in the Balkans; less immediately but not inconceivably from the Soviet Union. It resisted pressure from the Germans to allow the transit of troops along its rails, but permitted some movement of war matériel. At the same time, it resisted British-led Allied pressure during the course of 1943 to become an active ally against Germany and did so only in the waning months of the War.

Sweden and Switzerland were surrounded by German forces for almost the entire War. Given the sometimes irrational nature of Nazi decision-making, some degree of German military threat lasted through much of the conflict. Nevertheless, Sweden felt sufficiently confident that the German threat was waning in September 1943 to promise the Allies that it would significantly curtail its trade with Germany in the course of 1944. The Allies sensed the same waning of a German military threat when in late 1943 they considered the merits of direct Swedish intervention in the War. The surge of Allied forces up to the French-Swiss frontier in the last months of 1944 could have assured Switzerland that its isolation and vulnerability was nearing an end, even as the concentration of retreating German forces near its northern border and the failed German offensive through the Ardennes in December 1944-January 1945 were reminders of the remaining German military potential. Yet its gold trade continued with Germany until the last weeks of the War.

Fourth, Nazi Germany financed a substantial portion of its war effort by paying for its wartime imports from the neutral nations in gold, much of it looted from occupied Europe and some of it stolen from the millions of victims of the Holocaust. Most of this looted gold was sent to the Swiss National Bank, which converted it into Swiss francs or deposited it in the accounts of other central banks.

No trading country accepted Nazi Germany's Reichsmarks in payment for goods and services, forcing the Germans to buy Swiss francs, which, along with the dollar, was the only accepted medium of exchange on the continent. Germany therefore had to sell looted gold to finance its strategic purchases from the neutrals. In this trade, according to Allied estimates, more than $300 million ($2.6 billion in today's values) in Nazi gold reached Portugal, Spain, Sweden, and Turkey during the War. Three-quarters of this amount was transferred from Germany through the Swiss National Bank, the principal gold trading center on the continent. This flow of gold from Germany to the neutrals persisted through the War despite Allied warnings in January 1943 and February 1944 against accepting transfers of assets from Nazi Germany that had been looted from occupied countries. The Bretton Woods Resolution VI of August 1944 also warned the neutrals not to "dissipate" German assets and gold which came into their possession. The European neutral countries continued to accept looted gold from the Reichsbank even after 1942 when it became clear that the Reichsbank had long since exhausted its own prewar gold reserve and was using the reserves of the looted central banks of the countries overrun by Nazi forces.

The Allies estimated that Germany financed its imports from Spain and Portugal with as much as $204 million in looted gold; more than $20 million in gold financed German trade with Sweden. Turkey, for several years during the War, received German armaments in exchange for Turkish exports including the strategically critical chromite ore. Almost all of the gold that reached Turkey was traded through the free commercial market, not through the Turkish Government. Although the pro-Axis actions and sympathies of some of Argentina's leaders raised Allied suspicions that looted gold reached Argentina, no evidence has been found that European gold, looted or otherwise, was transferred there.

Evidence presented in this report and in the May 1997 preliminary report demonstrates that the property of Holocaust victims was incorporated into the Reichsbank's gold reserves and that some was included in the gold that Germany traded to the neutrals for foreign currency and strategic materials. Proof of one such shipment to the Swiss National Bank was presented in its final report. The Swiss Bergier Commission calculated the amount of victim gold delivered to the Reichsbank during the War at a minimum of $2.9 million (about $25 million today). Our calculations are that the amount of victim gold credited to the Melmer account was about $4.6 million (about $40.5 million today).

This supplemental study further reveals that victim gold from the Melmer account was also included in gold that the Dresdner Bank and the Deutsche Bank sold on the Turkish free market as part of a scheme to supply the Reichsbank with foreign currency, and to help Axis diplomats and agents finance their operations in Turkey. Some of the nearly $1 million in victim gold from the Melmer account obtained by Dresdner Bank and Deutsche Bank likely was part of the gold sold by those banks on the Turkish free market.

Not all victim gold was funneled directly into financing the German war effort. Most of the gold and valuables of the Jewish as well as Serbian and Sinti-Romany victims of wartime Croatian Ustasha terror is still unaccounted for, but seems to have at least in part helped finance the escape of Croatian and other war criminals and fugitives from justice in Europe after the end of the War.

Fifth, the postwar negotiations that the United States, Britain, and France conducted with the wartime neutrals were protracted and failed to meet fully their original goals: restitution of the looted gold and the liquidation of German external assets to fund the reconstruction of postwar occupied Europe and to provide relief for Jewish and other non-repatriable refugees. This resulted from the intransigence of the neutrals after the War, dissension within Allied ranks, and competing priorities stemming from the onset of the Cold War. Less than $20 million ($14.9 million from Sweden alone) of the up to $240 million in looted gold acquired by the wartime neutrals, apart from Switzerland, was returned to the Tripartite Gold Commission to meet the claims from the central banks of 15 countries.

Switzerland returned $58 million (around $500 million in current values) of a U.S. estimate of $289 million (or up to $316 million as estimated by Switzerland's Bergier Commission). Only about 20 percent of $474 million to nearly $494 million in German assets estimated to have been in the neutral nations was turned over to the Inter-Allied Reparations Agency (IARA) for reconstruction and reparations. Switzerland turned over only $28 million worth of German assets out of a pre-1946 Washington Accord estimate ranging from $250 to $750 million. During the negotiations in 1946 and those that followed, the Allies accepted the Swiss estimate of $233 million of German assets in Switzerland. The Allies agreed to exclude assets of the German State and those of German emigrants, Nazi persecutees, and small savers. These exclusions reduced the amount of the total assets subject to liquidation to $84 million. This meant that the amount to be turned over to the Allies totaled about $42 million. By 1952, even with these exclusions, Switzerland turned over only $28 million, which the Allies accepted as final payment.

Some of this result was due to the widespread postwar practice, on the part of Allied and neutral countries alike, of using German assets to settle debts between their own businesses and Germany. In addition, there was also a reluctance, notably in Switzerland, to expropriate the assets of private individuals for the settlement of unrelated debts of businesses and the German Government. The hard bargaining of the neutrals as well as the distractions and new priorities of the Allies in the postwar years resulted in the failure to gain for devastated nations and victimized peoples a fair share of Nazi Germany's stolen or hidden assets and gold.

The general lack of success of the postwar Allied negotiations with the neutral nations reflected as much the attitude of the neutrals as it did the rapidly changing international landscape.

Allied negotiations with Sweden were the most successful. They were completed quickly and cooperatively in July 1946 (soon after the Allied-Swiss Accord), resulting in the restitution of $15 million of identifiable looted gold and the assignment of more than $66 million in German assets in Sweden to agreed occupation and reconstruction costs. Nevertheless, the Swedes contested the legality of the Allied claim to German assets in Sweden and did not fully implement the agreement until 1955.

Spain, whose readiness to carry forward postwar negotiations with the Allies contrasted sharply with its recalcitrance during the War, was second to Sweden among the neutrals studied in this report in the amount of assets it turned over: more than $32 million, although the final distribution was delayed until 1959. Spain opened its gold exchange records to the Allies, who agreed in 1948 that it need only return $115,000 in gold of the $138 million it was estimated to have acquired.

The protracted negotiations and exchanges with Portugal between 1946 and 1959 netted only about $4.5 million in looted gold and about $500,000 in assets.

The attempt at meaningful negotiations with Turkey failed as the Turks asserted their entry on the Allied side precluded any agreement to return gold or German assets. Despite strained relations between the United States and Argentina, the Argentine Enemy Property Board cooperated with the U.S. Safehaven investigators in identifying $200 million in German assets, which Argentina subsequently liquidated.

The postwar Allied negotiations with the neutrals suffered from disagreements between the United States and its wartime Allies as well as differences within the U.S. Government on how to proceed. Such disagreements between the Allies had troubled the wartime economic warfare and Safehaven negotiations as well. Great Britain, for instance, was unwilling to jeopardize its own wartime imports by adopting the U.S. proposals for embargoes against Argentina and Portugal; it also took a more cautious approach on preclusive purchasing to thwart Portuguese and Turkish exports to Germany and was more reluctant to impose tough measures on Spain and Sweden through the Safehaven program. In the postwar negotiations, the British and French frequently opposed adopting the aggressive measures advocated by the United States to force the neutrals to turn over larger amounts of gold or external German assets.

Within the U.S. Government, the Treasury Department consistently took a tougher line than the State Department regarding economic warfare during the War, and afterward on the necessity of a firm postwar bargaining posture to recover and provide for the restitution assets. It is clear that after 1946 the negotiations with the neutrals no longer had the attention of the United States and its Allies and were overshadowed by the massive commitments to rebuild Europe (including the Allied occupation zones of Germany) and to forge a new security alliance in the face of an aggressive Soviet Union. Turkey was now on the front line of the new Cold War and became a cornerstone of the new U.S. policy of Soviet containment as that policy took shape in 1947. It was not in the Allies' interest to push the Turks hard on restitution. Similarly, the urgency of securing bases in Spain and Portugal and bringing these nations into the anti-Soviet alliance (even if Spain was not to join NATO until the post-Franco era) reduced postwar restitution efforts with these two nations in particular to diplomatic footnotes, with the Allies largely willing to accept dwindling neutral estimates and return of gold and German assets from them.

Allied representatives negotiating with Spain and Portugal between 1946 and 1948 adopted a critical reinterpretation of Bretton Woods Resolution VI, an Allied wartime determination to return looted gold to its owners, by which neutral nations need not return looted gold in their gold reserve that had passed through the hands of another nation (a notion that might have flabbergasted wartime Treasury Secretary Morgenthau, author of the February 1944 Allied Gold Declaration). This reinterpretation may have reflected the importance of Spain and Portugal to the emerging Cold War effort directed at the Soviet Union. Spain and Portugal were effectively relieved of their responsibility for giving back what might have been as much as $150 million in looted gold, and Spain, with the full consent of the U.S. Government, used looted monetary gold and gold with Prussian Mint markings as collateral for commercial loans in the United States in 1949 and 1950.

Finally, the troubling questions raised by the case of the Croatian Ustasha treasury require answers, including an accounting of the gold and valuables of the victims of Ustasha terror and the escape from postwar trial and punishment of its leadership.

The Ustasha regime in Nazi Germany's wartime puppet state of Croatia systematically and mercilessly robbed, murdered, or deported its Serbian, Sinti-Romany, and Jewish populations. Gold and other valuables of the victims became a part of the Ustasha treasury, which may have been as much as $80 million. Portions of this treasury appear to have been transferred to

Switzerland in the last year of the War. Very little of it was accounted for in the postwar arrangements made by Yugoslavia with the Allies and Switzerland.

With the defeat in May 1945 of Hitler and his satellites, including puppet Croatia, the leaders of the Ustasha regime fled to Italy, where they found sanctuary at the pontifical College of San Girolamo in Rome. This College was most likely funded at least in part by the remnants of the Ustasha treasury, and appeared to operate with at least the tacit acquiescence of some Vatican officials. It helped fugitive Croatian war criminals escape to the Western Hemisphere in the early postwar years, and cooperated with the "rat line" being used by the U.S. Army Counter Intelligence Corps after the War to assist the escape from Europe of anti-Communists. The fact that the "rat line" later facilitated the escape even of a Nazi war criminal like Klaus Barbie underscores the shift in the Allies' attitudes: World War II was over; the Cold War was on.

The record of the terrible legacy of the Ustasha assembled for this study is very incomplete. A full accounting should be made now to achieve a complete understanding of these issues. The opening of relevant archives in Croatia, Serbia, and the Vatican and cooperative international research will be essential in this effort.

Other Historical Research Efforts

These conclusions are based largely on the limited perspective of our almost exclusive reliance on U.S. documents (as well as captured Nazi documents in possession of the U.S.) which our interagency team has located, declassified, and evaluated. We hope that each country with a stake in these issues will intensify its efforts to examine its own record and confront its own history on its own terms and in its own way. It is essential that these studies move forward quickly so that a more comprehensive historical record of the looting and ultimate disposition of Holocaust-era assets can finally be completed.

Enormous progress has been achieved since the release of the path-breaking British Foreign Office gold report in September 1996 and our preliminary report in May 1997. A number of reports, most of them also preliminary, have been completed by the some dozen historical commissions at work on these issues. While the mandates guiding their work vary, virtually all are examining the handling of looted assets from central governments and individual victims of the Third Reich and Nazi atrocities; some are also focusing more broadly on their country's overall wartime role and relationship with Nazi Germany.

No country is undertaking more comprehensive research than Switzerland through its historical commission headed by Professor Jean-Francois Bergier. The Bergier Commission's December 1997 initial report and its May 1998 report on gold demonstrate the integrity and probity of its work. It will release its study on Swiss refugee policy later this year, and continue to develop its final conclusions on Switzerland's overall role during the War.

Each of the countries that are the focus of this supplementary study has also established mechanisms to conduct its own research:

- Argentina's commission, spearheaded by President Menem and Foreign Minister DiTella and advised by a distinguished international panel of experts, is addressing the range of Nazi activities during the War.
- Portugal's commission, led by former President and Prime Minister Mario Soares, has widened its mandate beyond its initial focus on wartime gold transactions and expects to release a report later this year.

- Spain's commission, chaired by former Justice Minister Mugica, released its report on wartime gold transactions in April 1998. Some of its conclusions and data are referred to in the Spanish section of this study.
- Sweden's commission last December released a preliminary draft of their work to date, focusing in particular on monetary gold payments and the disposition of Jewish assets in Sweden. The Swedish Central Bank also completed a report on intergovernmental monetary gold transactions during the War, many of whose conclusions are reflected in this study. Since then, the commission has also released a report identifying all dormant assets in Sweden attributable to foreign residents.
- Turkey's effort began in late 1997 under the direction of Minister of State Gurel, who is coordinating the research of several government agencies focused so far largely on the gold purchases of the Central Bank of Turkey. The Turkish Government's initial work was reviewed carefully for this study.
- Croatia's commission is researching the broader issue of the fate of Croatian Jews during the Holocaust, including the disposition of Jewish property.

Formal commissions focusing on these issues are also at work in Belgium, Brazil, Canada, France, the Netherlands, and Norway—countries which were U.S. Allies or which were occupied by the Nazis during the War. The Canadian commission produced a very detailed report late last year examining the issue of whether looted gold reached the Bank of Canada. It is particularly praiseworthy that French President Chirac has asked the Matteoli Commission to examine fully and for the first time in the postwar era, the role of Vichy France in collaborating with Nazi Germany in deporting French Jews to their death and has pledged to identify and return art works looted by Vichy France or the Nazis which are now in France. In May 1998 the Presidents of the three Baltic republics—Estonia, Latvia, and Lithuania—committed to establish historical commissions in their countries to address these difficult issues as well.

In March 1998 legislation was introduced in Congress to create a Presidential Commission to examine the fate of Holocaust assets in the United States. The bill was introduced by Senator Alfonse D'Amato and Congressman Jim Leach, two leaders from the outset in raising the consciousness of America and the world on Holocaust assets issues, with bipartisan support and the strong backing of the Clinton Administration. The substantive mandate of the Commission will focus on two key areas: first, to conduct original research on the collection and disposition of Holocaust-era assets that came under the control of the U.S. Government after Hitler came to power in 1933 (assets such as gold, gems, bank accounts, financial instruments, and art works); and second, to review research being conducted more broadly in the public and private sectors. The Commission will be charged with issuing a final report to the President summarizing its findings and making recommendations no later than December 31, 1999. Establishing a strong Commission that can meet its mandate by this deadline will send a message that the United States Government is determined to address the fate of Holocaust assets here at home.

Last December, the British Government brought together 41 countries and the Vatican at the London Conference on Nazi Gold. The London Conference was a landmark in the international community's effort to illuminate long-obscured facts from that dark chapter in history. Significant progress was made in coordinating research, addressing methodological issues, and encouraging governments to open their archives and to make their records fully accessible. The London Conference highlighted as never before the international dimensions of the issue of looted gold, and catalyzed the work of the national commissions and others working to complete the historical record on this complex subject.

In order to sustain this positive momentum of the London Conference, the Department of State and the U.S. Holocaust Memorial Museum will co-host the Washington Conference on Holocaust-Era Assets late this year. The objective of the Washington Conference will be to focus attention on assets other than gold, especially on art works and insurance. Like the London Conference, the Washington Conference will not be a forum for governmental decision-making. But it may help develop principles and processes to deal with these categories of assets. We hope that the Conference can give fresh impetus to the encouraging initiatives already underway in many countries.

Archival research and international conferences have provided the framework for achieving a greater understanding of the fate of Holocaust assets. But these issues have had a vast public and political impact beyond the academic and diplomatic arenas. It is remarkable that only now, more than half a century after the end of the Second World War, have such long-neglected issues come to command the attention of the world and touch the conscience of humanity.

It is painful for any country to confront periods or issues in its recent history that reopen old wounds or raise new questions that affect its identity or international reputation. It is inescapably true that the Holocaust is such a period, and the fate of its victims' assets such an issue. Yet such a cathartic process can strengthen the nations undertaking it.

There is no doubt that Switzerland is conducting the most searching national debate. This is a debate that should gain the world's full respect as the Swiss people and their institutions examine their country's past in their own way.

Switzerland is not alone. France has been absorbed by the trial of Maurice Papon. The French Catholic Church took the extraordinary step of apologizing for its conduct during the War, especially in failing to save more French Jews from the Holocaust. Germany's Catholic bishops did likewise.

Other countries, too, are strengthening themselves for the future by addressing the past. Perhaps no country is now conducting a more open and constructive debate, with less rancor and recrimination, than Sweden. Certainly no country has recently made a more significant investment in encouraging its people to learn the lessons of history, than Sweden. In January 1998, Prime Minister Persson launched a comprehensive Holocaust education initiative, with its centerpiece a new booklet on Holocaust history. Already over half a million booklets have been distributed to Swedish households which have indicated an interest. Sweden is working with the United States and the United Kingdom to develop ways in which this initiative might be adapted by other countries.

The most dramatic recent reckoning with the Holocaust was the Vatican's release in March of its long-awaited document *We Remember; A Reflection on the Shoah.* Characterized by the Vatican as "an act of repentance," this landmark statement, its limitations notwithstanding, is the most comprehensive and forthcoming ever on this painful subject by the Catholic Church. It also marks the latest positive step taken by the Holy See during John Paul's papacy to reconcile Catholics and Jews.

From History to Justice

We continue to believe, in the words of the Foreword to the preliminary report, that "ultimately, the United States, our Allies, and the neutral nations alike should be judged not so much by the actions or inactions of a previous generation, but by our generation's willingness to

face the past honestly, to help right the wrongs, and to deal with the injustices suffered by the victims of Nazi aggression."

Since those words were written one year ago, the international community has begun to demonstrate a willingness both to examine the past, to act in the present, and to give promise for a brighter future. A consensus is crystallizing among nations: that this tragic history must galvanize us to do justice in ways that provide both material and moral justice to the victims and survivors of the Holocaust.

Consensus has also emerged that the survivor population in greatest need of assistance are the "double victims" in Central and Eastern Europe who survived the twin tragedies of Nazism and Communism, suffering both six years of genocide and over four decades of repression and deprivation. Unlike Jewish and other victims of Nazi persecution in the West, they have received little or no compensation from Germany; most of them are elderly and many are impoverished. It is very encouraging that many of the restitution efforts underway are focused on helping them.

Attention to the fate of Holocaust assets over the last two years in particular has led to a number of positive initiatives aimed at providing material and moral restitution. These initiatives include:

The Tripartite Gold Commission and Nazi Persecutee Relief Fund. Beginning last summer, the United States launched an intensive diplomatic effort with our British and French partners in the TGC to close out the work of the Commission (created in 1946 as a mechanism to redistribute gold looted by the Nazis that had come into the possession of the Allies at the end of the War.) Drawing directly on the findings in our report that some portion of the gold transferred to the TGC gold pool after the war was victim-origin gold (as distinct from the gold looted from central banks that the gold pool was created to hold and return), we recognized the evidence that gold returned over the years to TGC claimant countries was thus tainted. On this factual and moral basis, the United States, the United Kingdom and France forged a consensus to appeal to the TGC claimant countries to use the $60 million in gold remaining in the pool in a way which would extend both a moral gesture and a material contribution to justice, however little and late, for Holocaust survivors. We urged the countries with outstanding claims with the TGC to contribute an amount equivalent to all or a substantial portion of their final share in the gold pool to the new Fund.

At the opening of the London Conference, the United Kingdom and the United States announced the establishment of the Nazi Persecutee Relief Fund. The Fund will be used largely to assist the "double victims" in Central and Eastern Europe, as well as other survivors who have received little or nothing. So far, some nine countries—including Sweden and Argentina among the wartime neutrals and other nations which are not TGC claimants—have made commitments to contribute. The U.S. Government has decided to contribute as well, even though we have no claim on the gold in the TGC gold pool. In February, President Clinton signed the Nazi Persecutees Relief Act into law; it provides for a $25 million U.S. contribution to the Fund over three years.

The U.S. Government expects soon to deposit an initial $4 million in the account established by the British Government for the Fund. The British Government has already deposited a contribution of $1.6 million. We also hope to gain the commitments of additional countries to contribute to the Fund, including from the other wartime neutral countries (apart from Switzerland, which is already making contributions to Holocaust survivors through other mechanisms). In the second half of 1998, we hope to see the fund make its first contributions to survivors, the TGC closed down after more than fifty years, and agreement reached to open its archives.

Switzerland's efforts. Switzerland continues to take the lead among the wartime neutral nations in the commitment it has made to provide justice in concrete ways. It is important to recognize, amidst all the criticism and controversy, the breadth and depth of the Swiss effort.

Progress is now being made, with the oversight of the Committee of Eminent Persons headed by Paul Volcker and the support of the Independent Claims Resolution Foundation, to locate and return dormant accounts of Holocaust victims and survivors to their rightful owners or heirs. Direct payments are being made to survivors from a nearly $200 million Special Holocaust Fund supported by the major commercial Swiss banks and other private sector companies, along with the Swiss National Bank. Thousands of Swiss citizens have come forward to contribute to several other funds benefiting Holocaust survivors. A $4.7 billion Solidarity Foundation proposed by the Swiss government would generate about $200 million a year to support humanitarian causes around the world, including assistance to victims of genocide such as the Holocaust.

Expansion of Dutch assistance. In early 1998 the Government of the Netherlands began intensive discussions with countries in Central and Eastern Europe to share its experience in administering long-standing Dutch programs for assisting victims of war and persecution by providing guaranteed incomes as well as medical and psychological care. The Netherlands has budgeted $400 million for these programs this year. Recipients include individuals persecuted during the German occupation of the Netherlands from 1940 to 1945, and their next of kin, who were or have become disabled as a result. During 1998 the Dutch Government will pay out benefits and grants to some 50,000 Holocaust victims and other victims of war around the world.

British Government initiative on lost assets of Holocaust victims. In conjunction with the release of a government report in early April 1998, the British Government apologized to Holocaust victims who lost assets deposited in the country during the War and it established a special process for them to claim compensation. It will publish the names of the approximately 25,000 victims whose assets were seized under a "trading with the enemy" law which applied to assets of the citizens of nations occupied by Nazi Germany. Britain will also fund payments with an initial contribution of $3.2 million.

Norway's establishment of a restitution fund for Holocaust survivors. In late April 1998 Norwegian Prime Minister Bondevik announced that the Government of Norway would propose establishing a $60 million restitution fund for Norwegian Holocaust survivors due to the fact that restitution for material resources and injustices suffered by Norwegian Jews were never made. The Prime Minister made clear that survivors would be compensated not only for material losses but for moral injustices as well.

The German Government's commitment to extend compensation to Eastern Europe. In January, the German Government and the Conference on Jewish Material Claims Against Germany in Germany (CJMC) announced the outlines of an agreement to establish a fund on the basis of a $111 million contribution by Germany over a four-year period to assist uncompensated Holocaust survivors in Eastern Europe and the former Soviet Union. This new commitment builds on the $60 billion reparations effort over the last four decades that the German Government has undertaken to compensate victims of the Holocaust, and benefits for the first time those who were not reached behind the Iron Curtain during the Cold War. The German Government is to be commended for making this historic commitment. The Clinton Administration has directly encouraged this positive action by the German Government for some time. That this is now coming to pass is a tribute to the American-based NGOs—the CJMC (including the World Jewish Congress) and particularly the American Jewish Committee—which have worked on behalf of the interests of all Holocaust survivors over the years.

Efforts to provide for restitution of property confiscated by the Nazis and nationalized by Communist governments on the part of Central and Eastern European governments. These efforts are gaining positive momentum, although some serious obstacles remain. The restitution of communal property is now taking place in Poland under comprehensive legislation passed last year. In other countries, persistent efforts under existing or new government decrees, or through voluntary compliance at the municipal or local level, are yielding results. Hungary, the only country in the region which has made a commitment to return property confiscated after World War II, has returned communal properties and provided at least partial compensation for private property. The Czech Republic and Slovakia have resolved many but far from all outstanding communal property claims. Much remains to be done throughout the region to assure that restitution measures are implemented fully and transparently, and to support the restoration and maintenance of returned properties. Our hope is that the restitution of communal properties (such as churches, synagogues, schools, and community centers) can provide the physical infrastructure and income to form the basis for a revival of religious life in general and Jewish life in particular, as well as a measure of dignity and justice. Much less progress is being made on the return of private property confiscated by the Nazis and/or nationalized by former Communist governments of Central Europe and the former Soviet Union. Citizenship and residency requirements, along with bureaucratic delays, impede U.S. citizens from recovering their looted property.

* * *

Apart from processes underway to uncover dormant accounts in Swiss banks, the initiatives highlighted are being undertaken by governments. It is important to recognize at the same time the continuing work of NGOs on these issues, especially the World Jewish Congress, the World Jewish Restitution Organization, the Jewish Agency, the Joint Distribution Committee, the American Gathering of Holocaust Survivors and other survivor groups. It is these organizations, above all, which have kept faith with the imperative of justice over the years and which remain the backbone of efforts to distribute assistance, whether new or continuing, to survivors.

The goal of all this work is to help people while they are still alive. We must recognize and respect the frustration of surviving Holocaust victims, who escaped with little more than their lives. The fact that they were also stripped of their material possessions and financial resources, whether modest or substantial, amounted to one of the greatest organized thefts in history. But this desecration was also an intrinsic if largely forgotten dimension of history's most terrible genocide, of the physical destruction of nearly a whole people on the European continent and the degradation of all humanity. Now the world is coming to understand that the unfathomable tragedy and trauma of the Holocaust was compounded by half a century of unnecessary indifference and injustice.

It is dispiriting that it has taken the world so long to confront these long-neglected issues. At the same time, it is inspiring that so much progress is now being made to complete the historical record while the past is still a living memory and while the living survivors of the Holocaust can gain some comfort that at last, justice, however imperfect, is being done.

But time is running out for this belated justice to make a difference as aging Holocaust survivors die every week and every month. We must not wait any longer to act.

Toward the New Millennium

The approach of the new millennium offers a clear window of opportunity to act. At the London Conference, the United States called upon participating countries to conclude the work of the historical commissions dedicated to these issues and to disburse a generous portion of the funds that are being established to help survivors by December 31, 1999. By completing the unfinished business of the middle of this century by its end, we can enter the new millennium having attempted a moral accounting of this lingering ledger of grief.

Historical exercises like our two U.S. Government interagency reports will appropriately be measured by their command of the sources and analysis of the facts. But such exercises are also meant to be bridges: between searing history and enduring memory; between brutality and humanity; and between a bitter past and a better future. It is our hope that this study, like its predecessor last year, can contribute to a greater understanding of this terrible period in history as well as to a greater urgency in the quest for justice shared today by so many nations and peoples of good will.

Stuart E. Eizenstat
Under Secretary of State for Economic, Business,
and Agricultural Affairs
June 1998

Preface

The preliminary study on *U.S. and Allied Efforts To Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II*, prepared by an interagency group of historians, archivists, and other experts, was released in May 1997. That study was a road map through the 15 million pages of official U.S. documents describing what American officials knew and did about the movements of looted monetary gold and other assets to the neutral nations during World War II. It also outlined the protracted negotiations between the Allies and the neutrals after the War regarding the restitution of gold and the liquidation of German external assets.

Most of those involved in the original preliminary study recognized soon after its release that because of time constraints and gaps in the documentary record available to us at the time, the account of Allied policies toward and negotiations with the neutrals during and after the War was incomplete. This supplementary study is an attempt to fill in the record and provide a clearer understanding of the wartime policies of the Allies toward five of the neutral countries in particular—Argentina, Portugal, Spain, Sweden, and Turkey—and the various restitution negotiations and diplomatic exchanges, often lengthy and ultimately disappointing, with these neutrals after the War. The study also explores the sparse available record regarding the composition of the wartime Croatian gold reserve and its fate after the War, including its use to facilitate the flight from Europe of war criminals and quislings.

The wartime economic warfare policies of the United States and its Allies with regard to the other major neutral, Switzerland—together with the postwar restitution negotiations with Switzerland—were comprehensively examined in the original preliminary study. The postwar Allied negotiations with Switzerland were the first to be undertaken, and in many ways became a model for those to follow. Switzerland served as the continent's principal gold trading center during the War for Nazi Germany's looted gold transactions, and Swiss gold purchases exceeded those of all other neutrals. The U.S. negotiations with and policies toward Argentina, Portugal, Spain, Sweden, and Turkey are best understood in the larger context including the major negotiations with Switzerland.

Of great importance to the preparation of this supplementary report was the information presented at the London Conference on Nazi Gold on December 2-4, 1997, by the national commissions established over the previous year to examine various aspects of the German looting of national banks in occupied Europe and the theft of the property and possessions of the victims of the Nazi regime in Germany and the countries it occupied. Other reports and information were made available at the London Conference from among the 40 governments that participated and from such independent institutions as the Tripartite Gold Commission, the Bank for International Settlements, the Bank of England, and the Federal Reserve Bank of New York. Not all the reports and information made public at the London Conference bear upon the issues under scrutiny in this report, but wherever they are relevant the findings of the various national commissions have been noted—most often in annotations to texts and tables. This is an exception to the methodological framework firmly maintained in both this report and in the May 1997 Preliminary Study that the material presented is strictly based on primary source documents among U.S. records and information available to American officials at the time. (The authors of this supplementary report have whenever possible cited the printed version of primary source documents and have restricted use of secondary sources to those few instances where no original U.S. official sources could be found in time for inclusion in the report.) Another exception to this rule was made for Annex I at the end of this report, which discuses new information concerning the value of the gold the SS looted from its victims at the killing centers and concentration camps

and how the Reichsbank disposed of gold taken from persecutees. I believe these exceptions are justified as an important step toward the goal that the historians and experts in the national commissions share: a comprehensive international historical accounting of events that have remained largely unacknowledged and unanswered for over 50 years.

Like the Preliminary Study of May 1997, this supplementary study is derived from and seeks to be a road map to the official U.S. records of half a century ago, all of which are now declassified and fully available to any and all researchers. Intended to provide basic analytical framework and a set of factual milestones, it presents a summary of what U.S. and Allied officials knew about the issues under discussion and what attitude or action they took. The principal criteria for presenting evidence here is to identify the highest-ranking officials responsible for specific proposed actions or decisions and to give as much of an accounting as possible of the actions and involvement of senior policy-makers and negotiators. Memoirs and selected authoritative secondary works that provide additional important primary evidence or illuminate the contemporary documentary record have been very selectively cited where appropriate.

One group of records used in this supplementary report that were not used to prepare the May 1997 Preliminary Report are the wartime diplomatic communications of various enemy and neutral governments that were intercepted, deciphered, and translated by U.S. authorities. Copies or summaries of these intercepted communications were made available to U.S. leaders either as full texts or as the so-called "Magic" intercept summaries prepared for review by the President and a selected number of top U.S. officials. The intercepted messages and "Magic" summaries cited in this study are part of more than a million pages of such documentation declassified and transferred to the National Archives by the National Security Agency in 1996. Because of the collection's size and complexity, it was only selectively reviewed in preparing this supplementary study.

This supplementary study reflects how, during World War II, U.S. and Allied officials became convinced that the neutrals' financial and commercial relations with Germany were sustaining the War by enabling Germany to obtain materials and goods necessary to continue fighting. In addition, the Allies gathered considerable evidence that Germany was using looted gold to finance its imports from the neutrals. As the tide of the War turned against Germany in 1943, the Allies became increasingly concerned that the Nazi regime was trying to conceal assets in the neutral countries in order to finance a future return to power following its increasingly likely defeat. Like the May 1997 Preliminary Report, this supplementary report describes how U.S. officials viewed the neutrals' financial and commercial relations with Germany and what steps they took to curtail those relations during the War as well as to track the disposition of looted gold and German external assets.

Such a study cannot answer the question of whether the neutral nations, individually or collectively, could have halted the War by denying Germany critical supplies for its war effort and industrial machine, given its superior military power. It is clear that the United States and its Allies gave great significance to the economic relations of the neutrals with Germany and regarded particular exports—Swedish iron ore and ball-bearings, Turkish chromite ore, and Portuguese and Spanish wolfram—as vital to Germany's ability to carry on the War. The Allies waged a costly economic war with the Axis for control of these strategic supplies, which the Axis financed at least in part by gold looted by the Germans from throughout occupied Europe.

This supplementary study also focuses on what the United States did, in concert with its Allies or alone, to negotiate with the neutrals the restitution of looted gold and the application of

German assets to support the rebuilding of war-shattered Europe and to assist non-repatriable victims of the Nazis. The study seeks to provide a clearer description of the negotiations of the United States and its Allies with Argentina, Portugal, Spain, Sweden, and Turkey after the end of the War, what information about looted gold and German external assets was available to the negotiators, and how other foreign policy considerations slowed down and helped to shape their outcome. Cumulatively, the long-drawn-out negotiations with these five neutrals resulted in the restitution of just $18.5 million in gold and the conversion of about $100 million in external German assets in these countries into reparations and support for non-repatriable victims of Nazism—compared to an estimated total of as much as $240 million in looted gold and more than $475 million in external German assets in their possession at the end of the War.

Because this supplementary study focuses on wartime and postwar activities and negotiations that principally involved the Departments of State and Treasury, the sources for the study are almost exclusively drawn from the files of those agencies. Research on other issues not fully examined or only referred to in the Preliminary Study continues by historians, archivists, and experts in the various agencies that worked together on the original study, although more selectively and on a more limited scale. Greg Bradsher and his colleagues at the National Archives and Records Administration continue to be key to conducting research in the wartime and postwar records of all government agencies. Their assistance ranges over every topic considered by government researchers, as well as by the many individuals reviewing the records for Congress, foreign governments and historical commissions, law firms, and individuals.

The Preliminary and Supplementary Studies do not purport to answer all the questions that exist concerning gold and other assets stolen or hidden during World War II. Among the questions requiring further scholarly attention are:

- the impact of the Treasury Department's measures to enforce the U.S. wartime financial freeze on the assets in the United States of the governments and citizens of the belligerent nations and the consequences of those measures for the victims of Nazism and their heirs;
- the nature and effectiveness of U.S. and Allied wartime efforts to prevent neutral nations from concealing looted gold in European accounts by selling it to third parties in exchange for legitimate gold in accounts in the United States and Canada;
- the methods by which the Nazis stole their victims' valuables and the uses to which this stolen property was put, to the extent it is possible to determine;
- the measures adopted by the various neutral nations to facilitate or block the entry of Jewish refugees fleeing Germany and Axis-controlled areas; and
- the scale and significance of wartime German financial relations with the Vatican and their postwar consequences.
- the Vatican's relations with Nazi Germany and its allies as they pertained to Axis efforts to transfer looted gold and other assets abroad and the Vatican's policies and actions with respect to Axis diplomats and other officials as the War drew to a close. We hope that the Vatican will make its own pertinent records available to the public and prepare its own report on this set of issues.

German bank and archives experts have conducted an exhaustive study of their holdings of prewar Reichsbank records and have confirmed the disappearance of portions of the records of the Securities and Precious Metals Departments, including the records relating to the acquisition

of victim gold from the SS. A formal German Government report on this inquiry is expected in the near future.

Although the refugee policies of the Allies and the neutrals were outside the scope of this supplementary report as well as the original Preliminary Report, Sweden, Turkey, Portugal, and Spain rendered important humanitarian services by their willingness to accept refugees. This is an important subject that requires more study by the international community of historians, and deserves to be taken into account as judgments are made on the wartime record of the neutral nations.

This supplementary report was largely prepared by a team in the Office of the Historian with the continued close cooperation of the Department of the Treasury and the National Archives and Records Administration. I wish to acknowledge the contributions of my colleagues at the Department of State: Rita Baker, Denver Brunsman, David Goldman, David Herschler, N. Stephen Kane, Douglas Keene, and Basil Scarlis. Preparation of this report would not have been possible without the invaluable contribution of Donald Steury of the History Staff, Center for the Study of Intelligence, Central Intelligence Agency, and the Department of Justice, particularly the staff of the Office of Special Investigations under Director Eli Rosenbaum and Chief Historian Elizabeth B. White, including the sharing of important documentation from the Simon Wiesenthal Center regarding certain Argentine Central Bank records and the documents provided by the World Jewish Congress. I also wish to thank my colleagues at the Federal Reserve Bank of New York, the Center for Military History, and the Departments of Commerce and Treasury for their thoughtful commentary on various versions of the report.

Again, I appreciate the leadership provided by Under Secretary of State Stuart E. Eizenstat, who led this interagency effort, as he did the first, with an insistence on objectivity, candor, and accuracy. Bennett Freeman, Senior Adviser to the Under Secretary, helped guide the entire project and contributed his editing skills as the report evolved through its many revisions.

William Slany
The Historian
Department of State

Contents

Glossary of Terms

Inter-Allied Declaration Against Acts of Dispossession Committed in Territories Under Enemy Occupation or Control. Known as the London Declaration of January 5, 1943, it was issued as a formal warning that the Allies would not recognize the transfers of property taking place in Axis-occupied territories, whether the transfers appeared to be legal or not. The seventeen signatories reserved the right to declare such transfers of property invalid, whether they appeared to be legal or voluntary or took the form of open looting.

Gold Declaration. Issued simultaneously by the United States, Britain, and the Soviet Union on February 22, 1944, it warned that the Allied nations would not recognize the transfer of title to looted gold that the Axis had held or disposed of. The declaration also warned that the Allies would not buy gold from countries that had not broken relations with the Axis, unless the Allies were fully satisfied that the gold had not been acquired directly or indirectly from the Axis powers or had not been released by the country because it had acquired other gold from the Axis powers.

Safehaven. The Safehaven program was begun during the War as Germany's defeat became more certain and the United States became concerned that Germany would hide gold and other assets abroad to finance a postwar resurgence of Nazism. The specific goals of Safehaven, formulated in spring 1944, were to restrict and prevent German economic penetration beyond Germany, to block Germany from transferring assets to neutral countries, to ensure that German wealth would be accessible for war reparations and for the rehabilitation of Europe, to make possible the return to legal owners of properties looted from countries occupied by the Germans, and to prevent the escape of strategic German personnel to neutral havens. Responsibility for the Safehaven program in the U.S. Government belonged to the Foreign Economic Administration, assisted by the Departments of Treasury and State and the Office of Strategic Services. By 1945 the Department of State assumed leadership of the Safehaven program.

Bretton Woods Resolution VI. Adopted at the U.N. Monetary and Financial Conference of July-August 1944, the resolution called on neutral countries to take immediate measures to prevent any disposition or transfer within their jurisdiction of assets belonging to governments, individuals, or institutions in occupied countries, as well as looted gold or other assets. The neutrals were also called on to prevent the concealment of such assets. The scope of the resolution was restricted to assets located in enemy-occupied territories.

Allied Control Council Law No. 5. First proposed at the Potsdam Conference of July-August 1945 as the Vesting and Marshalling Decree and adopted by the Allied Control Council on October 30, 1945, ACC Law No. 5 was the ultimate legal document that entitled the Allies and the Allied Control Council to vest or claim title to all German property outside the territorial boundaries of the former Reich. ACC Law No. 5 gave the Allied Control Council control of all German external assets and the right to divest the assets of their German ownership. Switzerland and Sweden contested its legality during their postwar negotiations with the Allies.

Paris Reparations Agreement. The eighteen-nation Allied Conference on Reparations met in Paris November 1945-January 1946. Article 6 of Part I of the final agreement of January 1946 called for German assets in neutral countries to be removed from German ownership and liquidated or disposed of in accordance with the authority of France, Britain, and the United States after negotiations with the neutral countries. This excluded the Soviet Union from any claim to German external assets and left to the Western Allies the responsibility for their disposition, laying the basis for the subsequent Allied negotiations with Switzerland, Sweden, Portugal, Spain, and Turkey.

Paris Reparations Fund. Article 8 of Part I of the Reparations Agreement contained the governing principles and mechanisms for the distribution of reparations from Germany to provide assistance for the non-repatriable victims of Nazism. A $25 million fund comprised of proceeds from the liquidation of German external assets was established as part of a package for the rehabilitation and resettlement of non-repatriable refugees. Also in the package was all non-monetary gold found in Germany and the assets in neutral countries of victims of the Nazis who left no heirs ("heirless assets"). The fund and the non-monetary gold would be administered by the Intergovernmental Committee on Refugees (IGCR) and its successor, the International Refugee Organization (IRO).

Monetary gold. Part III of the Reparations Agreement established principles for the restitution of monetary gold looted by Germany, and stipulated that all monetary gold found in Germany by the Allied forces, or recovered from a third country to which it was transferred by Germany, was to be pooled for distribution among the countries in proportion to their losses of gold through looting. In determining what gold should be transferred to the gold pool in 1948, the U.S. Military Government in Germany (OMGUS) decided to use the definition of monetary gold devised by the U.S. representative to the Paris Conference, i.e., monetary gold consisted of gold coins, except those of numismatic value, and gold in such form as to permit it to be used as a medium of exchange. The United States, France, and Britain were made responsible for the distribution of the monetary gold.

Non-monetary gold. All gold found in Germany by U.S. troops was gathered in the Foreign Exchange Depository in Frankfurt, administered by OMGUS. The "Non-Monetary Gold Directive," a cable from the U.S. Joint Chiefs of Staff to OMGUS of November 16, 1946, defined non-monetary gold as "all valuable personal property" looted from Nazi persecutees. It was generally considered to include gold objects looted from private citizens and Holocaust victims; SS loot collected from concentration camps, including dental gold and personal jewelry; and rare coins that had no identifiable owner.

Tripartite Commission for the Restitution of Monetary Gold. The Allies established the Tripartite Gold Commission (TGC) in September 1946 to adjudicate the claims submitted by nations for a share of the gold pool and to distribute the gold. Administered by the United States, Britain, and France, the TGC remains in existence in early 1998, although steps are being taken by its co-trustees to close out its work after more than half a century. The three co-trustees have urged that countries with outstanding claims with the TGC contribute an amount equal to their final share or a substantial portion of their final share to a bank account, announced by British Foreign Secretary Robin Cook and Under Secretary of State Stuart Eizenstat at the London Gold Conference on December 2, 1997, which is now established in the Federal Reserve Bank of New York. The Bank of England serves as the trustee for this account.

Note on Neutrality

In this study the term "neutral" has been used to identify and define six nations and their economic and diplomatic policies during World War II. The use of the term and application of the concept to the conduct of six nations which had transactions with the two belligerent sides in the War allows a reasonable and useful organization of historical knowledge of those transactions. At the same time it unavoidably pushes to one side the complicated circumstances and self-justifications that guided the policies of each "neutral" nation. An understanding of neutrality in the midst of the momentous and terrible events of the 20th century has been pursued by jurists and historians—with conflicting and as yet unsettled results. This study reflects the changing circumstances in which nations, especially smaller ones, sought to regulate their conduct on the very edge of a war of nearly unbelievable destruction and depravity.

In international law, neutrality had traditionally been understood to involve two or more nations that were at war and another "neutral" nation that avoided an evaluation of the merits of the belligerents and maintained clearly defined rights and duties toward belligerents. Neutral nations, under these traditional international rules, assumed obligations of conduct that prohibited such things as providing armaments, allowing reinforcements, and using their territory as a base of operations. Neutrality did not prohibit the sale of ships and contraband, blockade running, loans, or government or private contributions. Rules of asylum defined what sorts of concessions were permissible to belligerent troops or ships and when internment was invoked. Neutrality also extended rights of trade and inviolability of territory.

The evolving complexity of international relationships, political and economic, during this century, along with the unthinkable scale of human brutalities to which nations and governments have resorted, outstripped the traditional concepts of war and neutrality and the modernized view of international obligations and prohibitions codified in the 1907 Hague Convention Respecting the Laws and Customs of War on Land. Legal experts agree that international events beginning with World War I have had a profound impact upon the institution of neutrality, the evaluation of which is by no means complete or agreed.

The inability or unwillingness of neutral nations before and during World War II to maintain fully their rights toward belligerents and the violation of traditional obligations of neutrals during war gave rise during the War to the concept of "non-belligerency"—a status somewhere between belligerency and neutrality and more a political concept than a legal one. The essence of non-belligerency, as it was pursued in World War II, is the favoring of one of the belligerent states or coalitions in a war to the extent of rendering economic and other support while at the same time continuing to enjoy the rights of neutrality. International legal experts agree that non-belligerency is not an accepted status under international law. Declarations of non-belligerency by Italy and Spain in September 1939 and by Turkey in 1940 appear to be the first occasions the concept was used. Britain's position on non-belligerency was expressed by the Under Secretary of State for Foreign Affairs to the House of Commons in November 1940:

> "'Non-belligerency' is a term which so far as I am aware has been used for the first time during the present war and does not as yet possess any definite meaning in international law. A declaration of non-belligerency has presumably to be regarded, amongst other things, as an indication of the political attitude which the State concerned desires to adopt towards the war. The question whether it also implies a legal status

distinct from that of neutrality and involving certain legal consequences is not at present clear and may have to be decided in the light of the circumstances of a particular case."[1]

Neither the United States executive branch of government nor the courts recognized during World War II any intermediate legal status between neutrality and belligerency.

This report has sought to identify and acknowledge how the various nations characterized their international legal status during the War, but has felt bound to refer to them collectively and individually as neutral.

Two of the "neutral" countries discussed in this report, Turkey and Argentina, actually became belligerents when they joined the Allies very late in the War—respectively in February and March 1945. Spain, which asserted its "non-belligerency" to the extent of allowing the volunteers of the "Blue Division" to fight beside Germans in Russia, redefined itself as neutral in October 1943. Portugal, Sweden, and Switzerland maintained their neutrality until the end of the War, generally complying with the rules of neutrality as then understood but departing from those rules on occasion in trade, transit, and base rights matters in favor of one side or the other and more than once suffering violations of their neutral rights by the belligerents. Argentina's decision to enter the War was of no military consequence; diplomatically it allowed Argentina to meet the criterion for attendance at the San Francisco Conference creating the United Nations and to fall in line with the other American Republics from which it had stood apart. This study also established that Turkey's wartime conduct conformed broadly with accepted principles of neutrality, including its substantial commercial links with both sets of belligerents.

President Dwight Eisenhower, who served as wartime Commander in Chief of Allied Forces in Europe, exemplified the attitude of the U.S. leadership in World War II. A 1956 White House statement reviewed President Eisenhower's understanding of the concept of neutrality; it concluded as follows:

> "The President does believe that there are special conditions which justify political neutrality but that no nation has the right to be indifferent to the fate of another or, as he put it, to be 'neutral as between right and wrong or decency and indecency.'"[2]

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[1] Marjorie M. Whiteman, ed., *Digest of International Law*, vol. 11 (Washington, 1968), p. 165, citing 367 H.Deb. (5th ser.), cols. 229-230 (November 27, 1940).

[2] Whiteman, p. 161.

Report Summary [1]

Allied Relations and Negotiations With Argentina

Argentina, alone among the American Republics, pursued a neutrality in World War II that the United States perceived as not only failing to support the Allies but as actually sympathizing politically with the Axis and ignoring Nazi penetration of Argentina until the War was nearly over. Although Argentina had a history of close ties with Britain and there was considerable sympathy for the Allies among the Argentine public and some political parties, the government became increasingly dominated during the War by pro-Axis leaders, particularly after the overthrow of civilian authority and the establishment of a military regime in June 1943. The Argentine Government did not sever diplomatic and commercial relations with Nazi Germany until January 1944, refused to cooperate in U.S.-led economic warfare measures, permitted Argentina to become the center of Axis espionage and propaganda activities in South America, and even conspired to overthrow the governments of other South American nations and replace them with pro-Axis authoritarian regimes. The United States viewed the accession to power in February 1944 of General Edelmiro Farrell as representing the final triumph of the pro-Axis faction in the Argentine military and consequently refused to recognize the Farrell government.

During the War, Argentina ignored Allied recommendations and declarations to end all financial interaction, direct or indirect, with Nazi Germany. The Allies became particularly concerned about the operation within Argentina of subsidiaries of Germany's leading firms, including I.G. Farben, Staudt and Co., and Siemens Schuckert. These firms maintained links with Germany throughout the War and supported major Nazi espionage operations in Latin America.

On the other hand, Argentine exports to the United States and especially Britain (which depended on Argentine beef to help feed its population) rose dramatically during the War, essentially doubling their prewar volume. This fact reflected the convergence of two important factors: the willingness of Argentine producers to expand their exports, and the strength of prewar and wartime ties between Argentina and Britain in particular.

The Allied wartime blockade made it impossible for Argentina to provide substantial amounts of exports to Germany, which up until then had been one of its principal trading partners. The Argentine capital of Buenos Aires, however, was one of the principal Latin American ports from which goods valuable even in small quantities, such as platinum, palladium, drugs, and other chemicals, were smuggled to the Axis. The State Department instituted a contraband control program as one aspect of a broader State Department-Board of Economic Warfare effort that also included the management of U.S. exports to Argentina with the aim of denying Argentine trade and financial interaction with Germany and persuading Argentina not to serve as a base for Axis subversion.

Despite these efforts, the United States and its Allies were never able to mount effective measures to counter what the United States viewed as Nazi economic penetration of Argentina, in part because of differing views within the U.S. Government and, more importantly, because of even greater differences with the British Government. The State and Treasury Departments viewed the Argentine situation differently, with Treasury continually pressing for more

[1] The full text of the summary of the May 1997 Preliminary Report is included as Annex II at the end of this supplementary report.

aggressive action—a pattern often matched in U.S. policy-making toward the other wartime neutrals, especially Switzerland. State deplored Argentine policies but favored a more cautious diplomatic approach that would not alienate other Latin American countries and would lay the foundation for postwar solidarity among the American Republics and closer ties with the United States. For its part Britain did not share the U.S. concerns about Argentina but rather viewed Argentine neutrality as advantageous to the Allied cause, as it safeguarded from German attack the Argentine shipments of meat and other exports needed to sustain the embattled British population. The United States could not, even with high-level appeals to Prime Minister Churchill, persuade Britain to break its relations with Argentina or support strong sanctions against it. Argentina did not play a significant role in sustaining the Nazi war effort.

The United States found it difficult to extend its Safehaven program to Argentina. Argentina's insistence on a neutrality that deviated sharply from its neighbors' policies and could not be justified by an Axis security threat, combined with the known pro-Axis proclivities of certain Argentine leaders, gave rise to U.S. suspicions—never substantiated—that Argentina was a safehaven (indeed a willing one) for German gold and other assets. The Safehaven efforts in Argentina, mounted in late 1944 and into 1945, foundered on the strains between the United States and Argentina and the absence of official relations after the Farrell regime came to power in early 1944.

The Act of Chapultepec of 1945, the cornerstone agreement for postwar security and cooperation among the American Republics, recognized the right of each Republic of the Western Hemisphere, including the United States, to dispose of German property within its own respective jurisdiction and retain the proceeds. Since the Farrell regime adopted the Chapultepec agreement when it finally declared war on the Axis at the end of March 1945, the Allies could not lawfully lay claim to German assets in Argentina. Instead, once U.S.-Argentine relations were resumed, the Treasury Department worked out a "replacement program" under which Argentina would, like other American Republics, eliminate Axis firms by liquidation, expropriation, and forced sale. As was also true in the other American Republics, including the United States, the proceeds from the liquidation or takeover of German assets in Argentina were never subject to postwar Allied control or disposition to aid the victims of Nazism.

In February 1946 the United States published its Argentine Blue Book, in which it sought to provide evidence of the pro-Axis policies pursued by Argentine governments during the War and to demonstrate the continuing potential for Argentina to become a base for a resurgent Nazism. The Blue Book confirmed that the Argentine Government asserted no control over German firms until its declaration of war against the Axis in March 1945, and reported systematic attempts to distribute or dissipate assets of German firms in Argentina. Although publication of the Blue Book gave rise to considerable anti-American public sentiment, and may have helped to elect Juan Peron President of Argentina, it actually fostered improved cooperation with the Enemy Property Board, established by the Argentine Replacement Program to take control of and liquidate German assets. By the end of 1946 U.S. relations with Argentina began to improve, and the onset of the Cold War renewed U.S. desire for hemispheric alignment, contributing to the improvement in U.S.-Argentine relations.

The Treasury Department made its final Safehaven reports regarding Argentina in May 1946, estimating German assets at $200 million[2] but also concluding that Argentina had not become a haven for looted gold or assets. Although U.S. Safehaven investigations in Argentina were never pressed vigorously and did not include a review of the records of the Argentine Central Bank, documents were obtained by the U.S. Embassy in Buenos Aires that allowed the conclusion to be drawn that no gold in Argentina had come from Axis sources. Nor were any caches of gems or art treasures looted by Germans officially uncovered in Argentina. (A U.S. Government examination in 1997 of selected records released by the Argentine Central Bank found no evidence that any gold was acquired by the Argentine Central Bank from Europe between August 1942 and the end of the war, but the records also contain no information about the origin of any gold the Bank received prior to August 1942.) In the wake of the resumption of friendly relations with Argentina, the Embassy notified Washington in early 1947 that all German assets were lawfully the property of the Argentine Government. Although the Enemy Property Board had at one time stated that the proceeds from Argentina's Replacement Program would be deposited in accounts intended to reimburse wartime losses incurred by the United Nations, no negotiations regarding the distribution of the proceeds of liquidated assets were undertaken.

Although the United States had become aware during World War II of an extensive commercial relationship between Argentina and Switzerland, which often included payments for exports in gold, the Treasury Department made a determination in December 1946 that the current status of U.S.-Argentine relations precluded any investigation of rumored Argentine acquisition of gold and that no negotiation over the restitution of any gold could be conducted. In light of that determination, the State Department approved in June 1947 a shipment of gold from Argentina to the Federal Reserve Bank. In October 1947 a Treasury Department undertaking to purchase Argentine gold at the Federal Reserve Bank resulted in inquiries to Argentina regarding the origin of the gold and whether any had possibly been looted by Germany. Although Argentina provided some assurances that none of the gold had come from Germany, a complete investigation was put aside by U.S. officials in the interest of not jeopardizing the development of better relations with Argentina. Improving U.S.-Argentine relations and fully integrating Argentina into the postwar hemispheric solidarity system had by then become important U.S. policy goals.

Allied Relations and Negotiations With Portugal

During the War, Portugal practiced what Dean Acheson, then Assistant Secretary of State, described as "classical legal neutrality," balancing its trade as much as possible with each side. Germany and the Allies waged an economic war to lure Portugal to their side through a combination of threats and lucrative trade deals. The Allies began this economic war with some advantages, most notably a centuries-old Anglo-Portuguese alliance, coupled with close economic and trade relations (Britain was Portugal's leading trade partner), as well as Portugal's dependence on U.S. petroleum, coal, and chemical supplies. Germany, Portugal's second largest trade partner, also enjoyed significant advantages, particularly after its occupation of France gave it a direct overland route to the Iberian Peninsula, through which it could both supply Portugal with greater quantities of imports than the Allies and pose a military threat if Portugal attempted to curtail exports important to the German war effort.

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[2] All of the dollar figures in this report are in 1946 dollars, unless otherwise noted. For a formula to convert from 1946 to 1998 values, please see the Statement on Gold and Non-Gold Asset Values and Foreign Trade Values, below.

Honoring its historic alliance with Britain, Portugal allowed Britain to trade and receive credit backed by the pound, allowing Britain to obtain vital goods at a time when it was short on gold and escudos. By 1945 Britain owed Portugal over $322 million under this arrangement. Portugal provided the Axis less formal but also advantageous trade facilities, permitting Germany and Italy to incur sizable debts in their clearing agreements with Portugal and advancing them significant amounts of escudos in government and private contracts. Deficits under the Portuguese clearing agreement with Germany averaged between 13 and 23.5 Reichsmarks ($5-9 million) between 1943 and 1944. A 1945 Allied study noted that, as a result of these arrangements, Germany never lacked escudos during the War.

The heated competition between the belligerents for its important resources greatly benefited Portugal's economy and generated huge profits for its businesses and banks. Although the Allies took a far greater share of Portugal's strategic goods during the War than the Axis did, Portugal exported one material to Germany without which, the Allies believed, Germany could not continue to fight: wolfram, which when processed into the extremely hard metal tungsten had myriad vital industrial and military uses. Allied officials predicted in 1944 that if Germany were deprived of wolfram, its machine-tool industry would virtually shut down within three months. Portugal was Europe's leading producer of wolfram, and while the Allies had easier access to sources in the Latin America and the Far East, Germany was dependent upon Portugal and Spain for the bulk of its supplies. The Allies' objective was to purchase enough of this vital ore to satisfy Portugal's export demands and prevent as much as possible from going to the enemy. Portuguese merchants also were an important source of vital smuggled commodities to the Axis, including industrial diamonds and platinum from Africa and Latin America.

Germany and Portugal negotiated secret agreements in accordance with which Portugal exported an average of over 2,000 metric tons of wolfram to Germany annually between 1941 and mid-1944, about 60 percent of Germany's estimated minimum industrial requirement, which the Allies estimated to be 3,500 tons annually. Portuguese Prime Minister Salazar commented to the British Ambassador in February 1944 that denying wolfram to Germany "would reduce her power of endurance, and the war would be accordingly shortened."

In January 1944 the Allies began to pressure Salazar to embargo all wolfram sales, but Portugal resisted, defending its right as a neutral to sell to anyone and fearing that any reduction in its exports would prompt Germany to attack Portuguese shipping, bomb Portuguese cities, or even launch an invasion from occupied France across Spain (which was neutral but under Franco's leadership, sympathetic to Nazi Germany). The Allies could have used the threat of an oil embargo to compel Portugal to end the trade with Germany, but they placed greater importance on negotiating access to military bases on the Azores. Portugal granted Britain access to these bases in October 1943 and extended such access to the United States a year later. On the eve of the D-Day invasion in June 1944, after Britain and the United States threatened economic sanctions, the Portuguese Government imposed a complete embargo on wolfram exports to both sides.

Germany paid for its Portuguese imports with German goods and escudos, as well as gold (most of which came through Switzerland) and Swiss francs purchased with gold. The Allies determined that after 1942 much of this German gold was looted, and warned all neutrals in early 1944 that they would not honor these transactions. The Bank of Portugal began to dispose of large amounts of German gold in 1943, and the Allies estimated that the Bank sold or traded 34 to 45 tons of gold by February 1945. Estimates of the total amount of looted gold received by Portugal ranged from 44.9 tons ($50.5 million), the amount of looted gold the Allies estimated Portugal had received after 1942, to the State Department estimate of 94.8 tons

(including 20.1 tons of Belgian gold) ($106.6 million). According to the same State Department report, however, only the 20.1 tons of looted Belgian gold had been purchased by Portugal directly from German accounts in Switzerland; the other 74.7 tons of gold ($84 million) had been sold to Portugal by Switzerland, which had previously purchased it from Germany. Portugal did not respond to Allied requests for information on its secret gold transactions.

Negotiations with Portugal for the restoration of looted gold and the disposition of German external assets began in September 1946 and eventually stretched into the late 1950s. The talks were held away from Washington and by the late 1940s were conducted on the Allied side by diplomatic representatives assigned to the Embassies in Lisbon. Allied investigators estimated that there were $36.8 million in German assets in Portugal at War's end, although this figure was considered tentative. They demanded that the assets be liquidated and the proceeds delivered to them as reparations to help war refugees and rebuild Europe. In February 1947 the two sides agreed on a division of the proceeds from liquidation, giving the first $4 million to the International Refugee Organization, $9.2 million to Portugal for its own wartime claims against Germany, and the remainder to the Allies as reparations. Portugal refused to implement the plan until the two sides could reach agreement on the restitution of looted gold, but the plan's terms became the basis for all subsequent negotiations.

While the Allies had evidence that Portugal acquired a significant amount of looted gold through private sources and smuggling, they agreed to form a joint investigative committee with Portugal to review only records at the Bank of Portugal in order to resolve the dispute over gold. The Portuguese investigators, however, dragged out the work of the committee and refused to allow their Allied counterparts to review the Bank's actual records. Based on this limited investigation, the Allies concluded that Portugal had received between 38.45 and 43.95 tons ($43.3-49.4 million) of looted gold. The Allied investigators could not trace the origins of about 8.3 tons of gold ($9.3 million); no effort was made to determine if it was non-monetary gold stolen from the Nazis' victims. In November 1947 the Allies demanded that 38.331 tons ($43.1 million) be returned to its original owners. The Portuguese, however, contested all but 3.9 tons ($4.5 million), claiming they had purchased all the gold in a "good faith" belief that the Germans had not looted it. Consequently they refused to relinquish any without compensation.

In 1949 the Portuguese agreed to begin liquidating German assets and keep the proceeds in a blocked account while the gold negotiations continued. As the negotiations dragged into the 1950s, the value of the German assets depreciated and the liquidation process was slowed by complex procedures and Portuguese delays. The Allies had lost some negotiating leverage with Portugal when the United States unblocked Portuguese assets in the United States in August 1948. The U.S. Joint Chiefs of Staff also feared that the impasse might jeopardize what it considered the more important strategic goals of continued U.S. access to air bases on the Azores, talks on which had resumed as early as June 1947, and integrating Portugal into postwar Western Europe, goals which would be secured by membership in NATO.

The negotiations were further complicated by the Allies' efforts to integrate West Germany into the Western alliance, which raised difficult issues over how Germany would honor reparations commitments made by the Allies after the War and handle Portuguese claims for wartime damages. Consequently, by July 1951, the State Department recommended accepting a Portuguese offer from July 1948 to turn over to the Tripartite Gold Commission 3.9 tons of Dutch gold for which Portugal would be fully reimbursed out of the proceeds of liquidation.

Intermittent negotiations continued for several years as Portugal demanded that West Germany be brought into the negotiations. In the interim, the United States, Britain, and France

fulfilled Portugal's contribution to the $25 million Reparations Fund out of their portion of Switzerland's payments in implementation of its agreement with the Allies. (Portugal did not repay the Allies specifically for the Allies' payment to the Reparations Fund on its behalf.) Finally, in October 1958 the United States, Britain, France, Portugal, and West Germany reached an agreement, and in December 1959 Portugal delivered $552,000 to the Allies and 3.998 tons of gold ($4.5 million) to the Tripartite Gold Commission. In addition, Germany paid Portugal about $13.7 million to reimburse it for the gold and to cover its wartime damage claims, for which Germany received still-unliquidated German assets in Portugal.

Allied Relations and Negotiations With Spain

Although Spanish General Franciso Franco declared Spain neutral in 1939, he was openly sympathetic to the Axis powers, which helped bring him to power, and only gradually abandoned his inclination to join the Axis. Spain supplied Germany with critical commodities, intelligence, and even some troops—the Blue Division—for the Eastern Front. By 1943, however, Spain had gradually adopted a more honestly neutral policy, largely in response to Allied economic warfare, the growing strength of Allied armed forces especially in North Africa and the Mediterranean, and the reversals experienced by Germany from 1942 onward. Nonetheless, Spain's strategic location and its supply routes to North Africa and South America gave Germany a conduit for important wartime materials, which Franco continued to supply. Private Spanish merchants were also Germany's principal source of vital commodities smuggled from Latin America and Africa, including industrial diamonds and platinum.

Wolfram was a major component of Spanish exports to Germany. As the second largest producer of this critical commodity (after Portugal), Spain sold Germany over 1,100 metric tons annually between 1941 and 1943, providing more than 30 percent of Germany's industrial requirements, and which, when combined with Portuguese sales to Germany, accounted for at least 90 percent of Germany's wartime wolframs needs, which the Allies estimated to be 3,500 tons annually. Allied economic warfare efforts against Spain were generally unsuccessful in the early years of the War. The Allied objective was to purchase enough of the ore to satisfy Spain's export demands and prevent it from increasing its trade with the enemy. The Franco regime combined desultory trade negotiations with the Allies and secret agreements with Germany to ensure the continued delivery of critical war supplies. In January 1944 the Spanish Minister for Industry and Commerce defended Spain's agreements with Germany, noting that Spain felt it "impossible" to deny Germany a commodity which "had a very high value in wartime." The Allies hesitated to act decisively against Spain for fear of driving Franco more fully into the Axis camp, but in January 1944 the Allies imposed an oil embargo on Spain.

In negotiations with Spain during the embargo, Britain favored a compromise that would allow Spain to resume wolfram exports to Germany at the 1943 level, but the United States continued to demand a complete ban. Finally in May 1944, as Germany's defeat became more certain, Spain agreed to limit exports of wolfram to Germany. Secretary of State Cordell Hull believed that if he had had "wholehearted British support," he would have achieved the objective of a complete ban on Portuguese wolfram exports to Germany. The Allies soon learned that senior members of Franco's Cabinet cooperated with Germany in smuggling more than 800 tons through July 1944 in violation of the agreement. Spain's exports of wolfram to Nazi Germany ended with the closing of the Franco-Spanish border in August 1944.

The American-led Safehaven program encountered resistance in the U.S. Embassy in Madrid. Intelligence operations to gain information about Spain's wartime support for Germany were undermined as U.S. Ambassador Carlton Hayes preferred a less aggressive attitude toward

Franco and his government. Britain was less interested in the postwar political goals of Safehaven than in negotiating a trade agreement with Spain and ensuring the flow of Spanish goods to Britain in the postwar period.

In May 1945, just before V-E Day, in response to an Allied request, Spain issued a decree freezing all assets with Axis interests. The Allies estimated German external assets in Spain at the end of the War at about $95 million. American experts using some captured German documents conservatively estimated in 1946 that between February 1942 and May 1945 Spain acquired about 123 tons of gold worth nearly $140 million (over $1.2 billion in today's values): 11 tons directly from Germany and German-occupied territories, 74 tons from the German account at the Swiss National Bank, and about 38 tons directly from the Swiss National Bank, which the Allies believed included some looted gold (about $376 million in today's values). U.S. estimates indicated that 72 percent of the gold, worth approximately $100 million, acquired by Spain had been looted by Germany from the nations it occupied. Other reports of Spanish gold acquisitions included an SSU intelligence report that trucking gold from Switzerland to Spain became necessary by late 1942 because Germany could not pay for Spanish goods in any other manner; a War Department report that 203 tons of German gold were trucked from Switzerland to the Spanish Foreign Exchange Institute between January 1942 and February 1944; and a German diplomatic report that SOFINDUS, a large German State-owned enterprise in Spain, acquired about 83 tons of gold bars from Switzerland in 1943.

Protracted postwar Allied negotiations with Spain over the restitution of monetary gold and the application of external German assets for reparations began in Madrid in September 1946. The Allied-Spanish negotiations were more intermittent and lengthier than the Allied-Swiss and Allied-Swedish negotiations which had preceded them. In October 1946 Spain agreed to turn over to the Allies an estimated $25 million in official and semi-official German assets. In January 1948 Spain insisted on separating the negotiations over assets and gold, declaring that it would restitute any looted gold but would not sign an agreement that did not include a reciprocal claim for Spain's lost Civil War gold. The two sides agreed in May to a complex formula for liquidating private German assets (then estimated at $20-23 million) in which Spain would get about 24 percent and the Inter-Allied Reparations Agency about 76 percent of the proceeds. None of the proceeds was slated for the $25 million fund for non-repatriable victims of Nazism, as envisioned in the January 1946 Allied Reparations Agreement, because the Allied negotiators believed the fund would be fully subscribed by the amounts obtained from Switzerland, Sweden, and Portugal.

The two sides signed a separate agreement in May 1948 that Spain would return $114,329 (101.6 kilograms) out of about $30 million in looted Dutch gold that the Allies had identified at the Spanish Foreign Exchange Institute and be allowed to keep the remainder. This portion was the only gold that Spain had purchased directly from the Banco Aleman Transatlantico, a German institution, and the Allies claimed that under the terms of Bretton Woods Resolution VI only the original purchaser of the gold from Germany was liable for its return. The Allies publicly acknowledged that Spain had not been aware at the time it acquired the gold that it had been looted. In addition to the 101.6 kilograms of looted gold, Spain turned over to the Allies $1.3 million in gold bars and coins it had seized from German State properties at the end of the War.

The Allied-Spanish negotiations coincided with Allied efforts to ostracize the Franco regime. The Allies explored ways short of direct intervention to end the Franco regime and allow the Spanish people to choose freely a new government. During these years Spain was excluded from the United Nations, pending a UN review of wartime Spanish support for the Axis, as well

as from the emerging Western Alliance, and most governments around the world downgraded their diplomatic relations with the Franco regime. Economic sanctions against Spain were under consideration but were ultimately excluded by the Allies for fear of exacerbating tensions that could bring about another civil war or allow Communism to gain a foothold in Spain. By 1948 the United States had concluded that these attempts at isolating Spain were counterproductive and were detrimental to the Spanish economy. As a result, with the signing of the May 1948 agreements, the United States released over $64 million in assets frozen since the War and informed Spain that it would allow it to use its remaining gold as collateral for private loans.

In 1950 the Federal Reserve Bank of New York held $50 million worth of gold as collateral for loans by Chase National Bank of New York (now Chase Manhattan) and National City Bank (now Citibank) to the Spanish Foreign Exchange Institute. Part of the collateral consisted of looted gold Spain had purchased from Switzerland and Portugal during the War. Both the State Department and the Treasury Department ruled that, pursuant to postwar Allied restitution policy, the gold was considered "tainted only in the hands of the first purchaser." Thus Switzerland (not Spain) was held legally responsible for providing this quantity of gold to the TGC. At the request of Citibank, the looted gold Spain used to collateralize its loan was re-smelted into "good delivery" bars by the U.S. Assay Office. In 1951 Spain collateralized a $10 million dollar extension of one of the loans using gold, including $2.6 million in looted gold that it had bought directly from the German account at the Swiss National Bank and had never revealed to the Allies. Both Treasury and State allowed the Federal Reserve to accept the looted bars, arguing that since Spain had negotiated the May 1948 Allied-Spanish accord on looted gold "in good faith" they would not consider them looted.

In 1951 Spain halted the distribution of German assets in an effort to garner a larger percentage and gain West Germany's assurance that it would not hold Spain responsible for compensating German owners of liquidated property. Intermittent negotiations continued until 1957, when Spain agreed to turn unliquidated assets over to Germany and Germany agreed not to hold Spain liable for compensation. This opened the way for an Allied-Spanish agreement in which Spain turned over the money it had blocked since 1951 in exchange for $1 million liquidated after that date. The total value of funds derived from German assets in Spain and disbursed by the IARA amounted to about $32.8 million, taking into consideration the fluctuation of the value of the peseta in the 1950s as a result of Spain's severe economic problems, stemming from the devastation of the Spanish Civil War and World War II. Altogether Spain received at least $5.3 million in liquidation proceeds.

By 1950 the Allies joined the U.S. effort to normalize relations with Spain, and the assets negotiations were subordinated to efforts to integrate Spain into the Western economic and military framework and provide Spain with substantial economic and military assistance—even though it was to remain formally outside the Western Alliance until its accession to NATO and the European Community in the post-Franco 1980s.

Allied Relations and Negotiations With Sweden

Sweden's neutrality in World War II was maintained at some cost to its independence and through considerable economic and military concessions to Nazi Germany. The Swedish Government sought to balance these accommodations by retaining, as best as its diplomats could manage, Sweden's traditional political and economic ties with the Western democracies. The British and, within the U.S. Government, the State Department and the President were inclined to sympathize with Sweden's plight (surrounded as it was by Axis powers or occupied countries) and understand its cautious relationship with Germany. There was considerable concern among

the Allies, however, that Sweden went too far in accommodating the Nazi regime. U.S. and British economic warfare experts generally felt that the German war effort depended on Swedish iron ore and ball-bearings and Soviet oil, and that without these materials, the War would come to a halt. Not only was the quantity of iron ore important, but the high quality of the Swedish ore made steel making more efficient, and the use of Swedish ships for transport eased delivery problems for Germany.

The Allied blockade of Europe and Germany's counter blockade of the waterway into the Baltic prevented all but the minimum of critical items like oil reaching Sweden from the West. Allied diplomacy through much of the War aimed at curtailing Swedish exports to Germany and reducing Sweden's more practical assistance to Germany's military operations on the northern front. Although these efforts did not, in the end, significantly constrain the German war industry in 1943 and 1944, an Allied-Swedish trade agreement of September 1943 did eventually bring about a progressive, substantial curtailment of Swedish commerce with Germany. Under the agreement, the United States and Britain agreed to allow an increase in exports to Sweden, including oil and rubber, in exchange for which Sweden agreed to cancel the transit of German military matériel and troops across Sweden, further reduce iron ore exports, end Swedish naval escorting of German sips in the Baltic, and reduce ball-bearing exports. The unremitting Allied diplomatic pressure and the crumbling of the Nazi war effort moved Sweden gradually to reduce and ultimately to end its trade with Germany. All Swedish trade with Germany halted completely in November 1944.

The U.S. military particularly deplored Sweden's continued critically important exports of iron ore and ball-bearings to Germany and its tolerance for the transit of German soldiers and war materials across Sweden and through the Baltic under Swedish naval protection. During the last half of 1943 and the early months of 1944, the United States sought to cripple Germany's ability to continue the War by carrying out a concentrated and costly bombing campaign against ball-bearing production in Germany combined with trade negotiations, including preclusive purchasing arrangements, intended to cut off Swedish ball-bearings to Germany. The U.S. bombing campaign reduced German ball-bearing production, but German industrial countermeasures and improvisations warded off any serious consequences. Moreover, the September 1943 agreement, which halted exports of ball-bearings, neglected to impose restrictions on exports of high-quality steel used to manufacture ball-bearings and appears to have allowed Sweden to provide Germany with ball-bearing steel, largely offsetting the drop in the Swedish export of finished ball-bearings. These efforts did not, therefore, significantly constrain the German war industry in 1943 and 1944.

After the tide of battle on the eastern front had irreversibly shifted following German defeats at Stalingrad and Kursk in the winter and summer of 1943, the Soviet Union took the lead in suggesting a more active role for Sweden in the War, such as the establishment of Allied air bases in Sweden. This idea was taken up at the Moscow Conference of Foreign Ministers in October 1943 and by Roosevelt, Stalin, and Churchill at the Tehran Conference in November 1943. Although the Allies did not decide to call on Sweden to declare war on Germany, Churchill believed that the War might be brought to an early end if Sweden and Turkey entered it on the Allied side in order to confront Hitler on additional fronts.

With the end of the War, Sweden demonstrated a ready willingness to cooperate with the Allies' Safehaven program. The Swedish Government's Foreign Capital Control Office, which had adopted tightened exchange control regulations in November 1944, made great progress in identifying German properties and eliminating German influences from Sweden's economy. Allied estimates of looted gold sold to Sweden by Germany ranged between $18.5 million and

$22.7 million. In March 1946 British, French, and U.S. officials met to discuss Swedish gold movements during the War. They concluded that the Swedish gold reserves had increased but were unable to determine if this was due to looted gold. In at least one instance, the Germans had attempted to sell gold looted from Belgium to Sweden, but the Swedes had apparently refused to buy.

Even before the postwar negotiations began with Sweden for the restitution of looted gold and the liquidation and application of external German assets to war reparations in Europe, the Allies found themselves at an important disadvantage. Sweden would not agree that the Allies could claim or dispose of German assets and property outside Germany, and the Allies could not agree to the use of economic sanctions against Sweden should negotiations over restitution and assets break down. In place of legal arguments based on Allied assumption of supreme authority in Germany, the negotiators cited the desperate plight of a devastated Europe and appealed to Swedish compassion. Negotiations in Washington moved swiftly from the start of their talks in late May 1946 until agreement was reached in early July. Sweden undertook to distribute more than $66 million in liquidated German assets as reparations, including a special $36 million fund at the Riksbank to forestall disease and unrest in Germany and to finance purchases essential for the German economy. It also agreed to restitute more than $8 million in gold to make up for that amount of Belgian monetary gold sold to Sweden during the War. Allied-Swedish negotiations regarding 8.6 kilograms of Dutch gold ($9.7 million), which began after the July 1946 accord, dragged on until 1955, with the Swedish negotiators arguing that the gold had been acquired before the January 1943 London Declaration on looted gold. In April 1955, after Swedish and Dutch officials met in Washington and the Dutch claim was proved conclusive, Sweden transferred about $6.8 million in gold to the TGC.

The U.S. negotiators informed Under Secretary of State for Economic Affairs Will Clayton that the July 1946 accord with Sweden was generally quite successful. The negotiations had none of the bitterness of the Swiss negotiations and resulted in the achievement of American Safehaven objectives. The agreement called for a 73-27 split in German external assets, which was an improvement over the 50-50 split of such assets with Switzerland. Within the State Department, critics acknowledged that the accord was better than that with Switzerland and as good as could have been expected in the absence of a willingness to resort to economic sanctions. The critics believed it was defective, however, because of its complexity (it consisted of 30 separate undertakings), because it reflected Sweden's rejection of the Allied assumption of supreme legal authority over German assets outside Germany and made Sweden's allocations of assets "voluntary contributions," and because its allocation of part of the liquidation proceeds to a fund for Germany to purchase essential commodities was more accurately a measure to benefit the Swedish economy.

The July 1946 Allied-Swedish accord proved to be as complicated as its critics warned, and its implementation stretched over the next eight years. Although Sweden was prompt in providing more than $12 million to the Intergovernmental Committee for Refugees for the succor of the non-repatriable victims of Nazism and $36 million was used in Sweden and elsewhere for essential commodities for occupied Germany, Swedish negotiators haggled with the Allies and the Inter-Allied Reparations Agency until 1955 over how to distribute the remaining $18 million for reparations. The promised payment of $8 million in gold to the Tripartite Gold Commission was delayed by Sweden until December 1949. Another $10 million in gold claimed by the Netherlands was not turned over to the TGC until 1955.

Allied Relations and Negotiations With Turkey

Turkey began World War II bound to Britain and France by the military alliance of October 1939, moved to non-belligerency in June 1940 after the fall of France, and adopted a policy of "active neutrality" in the spring of 1941 after German occupation of the Balkans and the conclusion of a German-Turkish Treaty of Friendship in June 1941. During most of the War, Turkey sough to balance the needs and expectations of Germany and the Axis on the one hand, and those of Britain and the United States on the other. Turkey took no overt action against Germany, which strictly observed Turkey's territorial integrity, and carried on extensive commerce with Germany, particularly the export of critical chromite ore for the Nazi war effort. American experts evaluated chromite ore, which could be converted to chromium, as one of the few raw materials that were essential for the German war industry and for which there were no adequate sources within German territory.

In October 1941 Germany concluded an important trade agreement with Turkey that provided for an exchange of Turkish raw materials, especially chromite ore, for German war matériel, together with iron and steel products and other manufactured goods, in order to draw Turkey further into the Axis orbit. At the same time, Turkey maintained its friendly relations with Britain and the United States, which provided Turkey with modern military equipment to upgrade its obsolete and ineffective armed forces, and both Allies sought to minimize the effect of Turkey's exports to Germany by preclusively buying its products, particularly chromite.

The United States and Britain began providing Lend-Lease military equipment to Turkey in 1941. Initially such aid was intended to maintain British influence with Turkey and keep it neutral. As the War progressed, much of the Lend-Lease military aid was in fact from the United States, although it was American policy to defer somewhat to Britain on Turkey and maintain British influence there. At their January 1943 Conference at Casablanca, President Roosevelt and Prime Minister Churchill considered seeking to bring Turkey into the War, and Britain was assigned the lead in negotiating Turkey's move toward belligerency. The Soviet Union urged the immediate entry of Turkey into the War during the October Tripartite Foreign Ministers Conference in Moscow in October 1943, and in November 1943 at the Tehran Conference. Roosevelt, Churchill, and Stalin called for Turkey's entry into the War by the end of the year. Allied military experts foresaw no likely threat to Turkey from Germany in the last months of 1943 or any time in 1944, but they judged that Turkish intervention in the War could provoke German retaliation. During 1943 and into 1944, Turkey continued to receive British-U.S. military assistance but resisted entry into the War. When Turkish leaders made their nation's entry into the War contingent upon massive military assistance and a significant Allied military presence, Britain and the United States in February 1944 abandoned their aid program to Turkey.

After Turkey concluded the trade agreement with Germany in October 1941, which provided for major quantities of German military equipment in exchange for a significant portion of Turkish exports, especially chromite ore, the Allies undertook to redirect Turkey's German-oriented commerce. A preclusive purchasing program, in which the U.S. Commercial Corporation had the pre-eminent role but Britain look the lead, aimed particularly at preventing Turkish chromite exports going to Germany. President Roosevelt's proposed warning to Turkey in March 1944 that its chromite exports were keeping Germany in the War confirmed German Munitions Minister Albert Speer's assessment of November 1943 that much of Germany's manufacture of armaments would come to a halt within 10 months if Turkey's chromite exports to Germany were ended. British-U.S. pressure, persuasion, and preclusive purchasing did not succeed until early 1944 when it was supplemented by threats to apply to Turkey the same

economic warfare measures earlier used against other neutrals. Turkey halted the export of chromite to Germany in April 1944 and suspended all commercial and diplomatic relations with Germany in August 1944. Turkey finally declared war on Germany in late February 1945 on the eve of the convening of the San Francisco Conference establishing the United Nations.

U.S. experts estimated that Turkey, while not a major recipient of gold from Germany during World War II, received as much as $10 to $15 million in gold, much of it probably for its chromite exports. After the War $3.4 million in Belgian monetary gold looted by Germany was traced to Turkey. In addition, two German banks with branches in Istanbul, the Deutsche Bank and the Dresdner Bank, took advantage of the high prices on the Turkish free gold market to sell looted gold provided by the Reichsbank in return for foreign currency, particularly Swiss francs. Some of the gold provided by the Reichsbank came from the infamous "Melmer account" in which the SS deposited the gold jewelry, coins, bars, and dental fillings robbed from its victims at the killing centers and concentration camps. Profits from the banks' Turkish gold trade were used to finance not only Germany's diplomatic, espionage, and propaganda activities in Turkey, but also the operations of various other Axis and "Axis friendly" Legations. Other German gold acquired by Turkey during and after the War included coins and ingots from the account of German Foreign Minister Joachim Ribbentrop at the Reichsbank, which had been stocked with gold looted from occupied Europe.

Turkey's last-minute shift from the status of a wartime neutral to that of an ally vitiated Allied efforts to gain Turkish support for the Safehaven program to locate German external assets and prevent their use for a Nazi resurgence. Within the U.S. Government, the State Department favored a less stringent approach toward Turkey regarding Safehaven than did the Treasury Department—a recurring pattern with respect to Safehaven and immediate postwar restitution objectives. The British and U.S. Ambassadors in Istanbul argued against treating Turkey as anything but an ally when it came to searching for looted gold. This position was persuasive in Washington, and the United States subsequently dropped any plans to request Turkey to provide detailed information about its gold supply.

The Allies conducted formal negotiations with Turkey over the restitution of looted monetary gold and the application of liquidated German external assets to the reconstruction of Europe. Allied experts estimated total German assets in Turkey at over $51 million in 1945 and possibly as much as $71 million in 1946. Turkey was willing to discuss assets with the Allies but insisted that they be applied to the settlement of Turkish war claims against Germany before the remainder might be shared with the Allies.

The Allied efforts to obtain agreements with Turkey in 1946 for the restitution of gold and return of German external assets were never pressed with vigor and were overshadowed by a major change in relations between and among the Allies and with Turkey. Although State Department policy papers identified no important U.S. national interests in Turkey as late as mid-1945, during the following year, in the wake of threatening Soviet gestures toward the Dardanelles and the Soviet-Turkish border, the United States quickly came to see Turkey as a cornerstone of the emerging Western strategy of containment. The enunciation of the Truman Doctrine in March 1947 to include not only Greece but also Turkey was followed in July by the signing of an aid agreement with Turkey worth $150 million.

The U.S.-Turkish aid agreement of July 1947 doomed negotiations with Turkey over gold and assets. In that month Turkey was willing to return more than $3.4 million in gold, but was unwilling to accept further Allied demands for information. Eventually Turkey failed to return any monetary gold; nor did any proceeds from liquidated German external assets ever

reach the Allies. The status of Turkey as an ally rather than a neutral threw the negotiations off the course that the United States had envisioned at the outset. By 1953 the Allies abandoned further efforts to obtain from Turkey the restitution of gold or the application of external assets to the victims of Nazi Germany. In contrast to other wartime neutral nations, Turkey, an 11th hour ally, returned no looted gold to the Tripartite Gold Commission, and turned over no money either to the International Refugee Organization for the support of refugees or to the Inter-Allied Reparations Agency for reparations.

The Fate of the Wartime Ustasha Treasury

The so-called independent state of Croatia, established on April 10, 1941, as part of the German conquest and dismemberment of the Kingdom of Yugoslavia, was denounced by the U.S. Government. Throughout World War II, it was U.S. policy to avoid any action that might imply acknowledgment of the Croatian protectorate, and to support the guerrilla forces seeking to overthrow the German-backed regime.

The Fascist Ustasha political movement in power in wartime Croatia carried out a murderous campaign aimed at Serbs, Jews, and others. As many as 700,000 victims, mostly Serbs, may have died in the camps. The Ustasha Croat campaign started with the internment of 35,000 to 40,000 Croatian Jews in the spring and summer of 1941, followed by the deportation of remaining Jews to Germany in 1942 and 1943. Only a few thousand Croatian Jews escaped after first finding temporary sanctuary in the Italian portion of the Croatian protectorate.

The Ustasha regime in Croatia accumulated a treasury that apparently included valuables stolen from the dispossessed and deported Jewish and Sinti-Romani victims of the ethnic cleansing campaign. A variety of wartime and postwar U.S. intelligence reports confirm a Ustasha regime treasury of some size, but no authoritative quantification proved possible. Nor was it ever clear how much came from Croatian Jewish victims—although one U.S. intelligence report speculated that it might be as much as $80 million in gold, mostly coins. Official and postwar information does confirm that the Croatian regime transferred gold to Switzerland toward the end of the War, and at least 980 kilograms of gold (worth about $1 million), taken by the Croat officials from the Sarajevo branch of the Yugoslav National Bank in 1941, was transferred to the Swiss National Bank in 1944. In July 1945 the Swiss National Bank returned the gold to the new Yugoslav Government.

After the Ustasha regime collapsed at the end of the War, its leader, Ante Pavelic, and some companions fled to the British zone of occupation of Austria from where, according to intelligence reports, he escaped or was released after surrendering some or all of a quantity of gold he had brought from Croatia. Intelligence reports vary widely in the amount of gold Pavelic brought—$600,000, $5-$6 million, or even $35 million. None of the information on the amount or makeup of the gold Pavelic was carrying or turned over to the British, some of which has the quality of legend, has been confirmed. What is known is that no gold was reported by British authorities to have been recovered, and none was turned over to the Tripartite Gold Commission for restitution. Pavelic made his way to Rome, where he arrived in early 1946.

U.S. and British intelligence reports agree that the College of San Girolamo degli Illirici in Rome served as a place of refuge and support for the Croatian refugees. San Girolamo, which is located outside the walls of the Vatican and pays Italian State taxes, provided living quarters for Croatian priests studying at the Vatican. After the War, it was the reported center of an extensive and effective underground that assisted Ustasha fugitives, including Ante Pavelic, to flee from Europe to South America. Pavelic hid in Rome at various locations from 1946 until his

flight to Argentina in November 1948 without any decisive action by the U.S. or British authorities to apprehend him and make him available for a war crimes trial.

A prime mover of the Ustasha activity in Rome was Father Krunoslav Dragonovic, secretary of the College of San Girolamo. Taking advantage of his contacts inside the International Red Cross, Dragonovic helped Ustasha fugitives emigrate illegally to South America by providing temporary shelter and false identity documents, and by arranging onward transport, primarily to Argentina. In the late 1940s and early 1950s, the U.S. Army Counter Intelligence Corps and the Ustashi collaborated in running a "rat line," an escape route for defectors or informants who had come to Austria from the Soviet zone of Germany or from Soviet bloc countries. In 1951 the anti-Communist informer and Nazi war criminal Klaus Barbie escaped to South America over the rat line. Some intelligence reports indicate that gold from the Ustasha treasury may have been used to finance the postwar underground activities involving Father Dragonovic at San Girolamo. There is no evidence in U.S. archives that the Vatican leadership knew of or gave support to the Ustasha activities outside its walls, but, given the location of the College, troubling questions remain.

The postwar fate of Croatian Ustasha fugitives, with or without portions of their wartime treasury, depended to a significant extent upon U.S. as well as British policies regarding Croatian Ustasha war criminals and escapees. In the first postwar months, U.S. and British policy was to turn over to the new Yugoslav Government of Marshal Tito anyone for whom the Yugoslavs could make a prima facie case of collaboration with the Nazis. This policy began to change in 1946 as the prisoner of war camps emptied. The standards for turning over Croatian prisoners of war steadily rose, and few were returned to Yugoslavia by late 1946. By May 1947 the U.S. Government became convinced that the Yugoslav Government was meting out unduly harsh treatment to its political enemies and perverting justice. U.S.-Yugoslav relations had cooled as a result of the Yugoslav regime's hostile actions, including harassment of U.S. Embassy personnel and accusations of espionage, the arrest and trial of Yugoslav employees of the Embassy on charges of espionage, attacks on unarmed U.S. aircraft over Yugoslavia, Yugoslav efforts to annex Trieste, and Yugoslav unwillingness to settle outstanding claims of American citizens for confiscated property. In addition, the U.S. and British intelligence services were relying increasingly on former Ustashi as sources of information and were consequently reluctant to antagonize these informants by extraditing their leaders to Yugoslavia. As a result, the policy of surrendering Ustashi was ended—a policy with which the British concurred. Even when the Allies learned the precise location of Ante Pavelic, the leader of the murderous Ustashi regime, they refrained from taking any action to bring him to justice.

U.S. official records provide only an imperfect understanding of the fate of the Croatian Ustasha treasury and the uses to which it may have been put. Evidence presented by the Croatian delegation to the December 1997 London Conference on Nazi Gold gives encouragement that more can be learned from Croatian sources. The bizarre circumstances attending the movement of Croatian State gold to Switzerland during the War and the flight of Ustasha leaders to Austria at War's end as well as the underground activities of Ustasha priests in Rome give rise to the hope that more information on the fate of Croatian Ustasha gold, including any possible victim gold, may come from the records of the Swiss National Bank and the British occupation forces and intelligence organizations, as well as from the archives of the Vatican and the Croatian State Archives.

Tables and Charts

List of Agreements, Declarations, and Negotiations

Executive Order 8389	April 10, 1940	Froze Norwegian and Danish assets in the US; eventually every European country except UK was included, as well as China and Japan
Proclaimed List of Certain Blocked Nationals	July 1942	Prohibited dealings with named individuals and firms in the Americas whose activities were deemed hostile to hemisphere defense
Inter-Allied Declaration Against Acts of Dispossession Committed in Territories Under Enemy Occupation or Control (London Declaration)	January 5, 1943	Allies declared invalid transfers of property in occupied countries, even if they appeared to be legal
U.K.-Portugal Azores Agreement	August 1943	Portugal granted Britain access to air bases on the Azores (effective in October)
Allied-Swedish trade agreement	September 1943	Sweden agreed to reduce exports of iron ore and ball-bearings to Germany; US and Britain agreed to export oil and rubber to Sweden. Implemented in full by November 1944
Argentine severance of relations	January 26, 1944	Argentina severed relations with Germany and Japan, then Romania, Hungary, Bulgaria, and Vichy France, including severance of financial and commercial transactions with the Axis
Declaration on Gold Purchases (Gold Declaration)	February 22, 1944	Declared that US would not recognize transfer of looted gold from Axis and would not buy gold from any country which had not broken relations with Axis; UK and USSR made similar declarations
Turkish agreement	April 1944	Turkey ceased chromite exports to Germany
Spanish agreement	May 1944	Spain limited wolfram exports to Germany (did not cease entirely until August 1944)
Portuguese agreement	June 5, 1944	Portugal ceased wolfram exports to all belligerents
Bretton Woods Resolution VI	July-August 1944	Called on neutrals to take measures to prevent disposition or transfer of assets in enemy-occupied countries
Turkish announcement	August 2, 1944	Turkey severed diplomatic and economic relations with Germany
Klaus Mission to European capitals	August-October 1944	Fact-finding mission throughout Western Europe on German efforts to find safe havens abroad
US and UK instructions to diplomatic missions	October 2, 1944	Instructed missions to request governments to adhere to Bretton Woods Resolution VI, to thwart Axis moves to hide loot in neutral countries
Swedish full implementation of September 1943 agreement	November 1944	Sweden ceased all exports to Germany (in October 1944 ceased ball-bearing exports)

U.S.-Portuguese agreement on the Azores	November 28, 1944	Granted permission for the US to build an airbase on Azores islands and gave US forces access for 9 months after war's end
State Department circular instruction	December 6, 1944	Organization and enforcement of Safehaven program
Yalta Conference	February 1945	• Agreed that reparations would be exacted from Germany, including external assets • Set up the Allied Reparations Commission
Turkish declaration of war	February 23, 1945	Turkey declared war on the Axis
Mexico City Conference of American Republics	February-March 1945	Adopted the Act of Chapultepec, which recognized the right of each American Republic to German property within its own jurisdiction. Argentina was excluded from the conference
Argentine decree	March 27, 1945	Argentina declared war on the Axis and agreed to provisions of the Act of Chapultepec; US re-established diplomatic relations
Spanish Decree Law	May 5, 1945	Froze all Axis assets in Spain
Portuguese Decree Law 36400	May 14, 1945	Froze all German assets in Portugal, provided for a census of assets, prohibited trading in foreign currency, created a system for licensing assets
Potsdam Conference	July 1945	• Decided to use external German assets for reparations and for non-repatriable refugees • Decided to restore looted monetary gold on a prorated basis to European countries • Soviets agreed to waive all claims to all external assets in Western Europe and to gold
Allied Control Council Law No. 5	October 30, 1945	ACC assumed control of all German assets abroad and the responsibility to divest the assets of German ownership
Paris Reparations Agreement	January 1946	• Disposition of external German assets • Restitution of looted gold • Establishment of the Gold Pool (see September 27, 1946 entry below) • Establishment of $25 million fund for assistance to non-repatriable refugees from reparations, to come from proceeds of liquidated assets in neutrals
Release of Argentine Blue Book	February 11, 1946	Focused on Argentina's conduct during the War and potential to become a future center of Nazism
Allied-Swiss Accord (Washington Accord)	May 1946	• Switzerland to give 250 million SF ($58 million) to the Gold Pool (full amount turned over to TGC in 1946) • Switzerland to liquidate German assets in cooperation with a Joint Commission with Allied representatives (estimated at $250-750 million; turned over $28 million in 1952)

Allied-Swiss Accord (Washington Accord) *(Continued)*	May 1946	• Liquidated assets to be split 50-50 with Allies • German owners of liquidated property to be compensated in German currency by authorities in Germany US to unblock Swiss assets and Allies to discontinue black lists • Interpretation of the Accord could be referred to arbitration • Accord would be effective when ratified by Swiss Parliament
Annex to Washington Accord	May 1946	Allies allowed to draw immediately up to 50 million SF ($11.6 million) upon their share of liquidated assets in Switzerland for the $25 million Paris Reparations Fund to advance to the Intergovernmental Committee on Refugees (IGCR)
Letters with Washington Accord	June 1946	Swiss committed to examine "sympathetically" making the proceeds of property in Switzerland of heirless victims at the disposal of the Allies for refugee relief (no action until 1962 when partial payment made)
Five-Power Conference on Reparation of Non-Repatriables	June 14, 1946	Provided plan for assistance to the IGCR (later International Refugee Organization (IRO)) for non-repatriable refugees
Allied-Swedish accord on German external assets and monetary gold	July 18, 1946	On liquidation of German external assets: • 50 million kroner ($12.5 million) to Intergovernmental Committee on Refugees (IGCR) (full amount turned over in 1947) • 75 million kroner ($18 million) to Inter-Allied Reparations Agency (IARA) (68 million kroner distributed by 1952 ($13.6 million at 1952 exchange rates); remainder turned over to UNHCR in 1956 • 150 million kroner ($36 million) to prevent disease and unrest in Germany (never paid after West German-Swedish agreement on German assets in Sweden) On restitution of monetary gold: • 7,155.3 kgs ($8.1 million) of Belgian gold to TGC in 1949 • 6,000 kgs, 638 bars ($6.8 million) of Dutch gold to TGC in 1955
Allied announcement	September 27, 1946	Creation of the Tripartite Commission on the Restitution of Monetary Gold (TGC)
Non-Monetary Gold Directive from Joint Chiefs of Staff to USFET, USFA, OMGUS (Cable WX-85682)	November 16, 1946	Instructed US occupation authorities to make available to IGCR all looted valuables in the custody of US forces in Germany and Austria; defined non-monetary gold as "all valuable personal property" looted from Nazi persecutees

Allied-Portuguese agreement on German external assets	February 21, 1947	Established terms for the liquidation of German assets in Portugal; never implemented because of failure to reach a settlement on gold
Report of Allied-Portuguese Subcommittee on Gold	March 19, 1947	Provided estimates of Portuguese wartime gold acquisitions for use in Allied-Portuguese negotiations on monetary gold; estimated total of 46.76 tons acquired ($52.6 million), at least 38.45 tons looted ($43.3 million)
State-War-Navy Committee decision on monetary gold	April 21, 1947	Provided that all monetary gold, even if included in caches of loot taken from individuals, would go entirely to the TGC
Inter-American Treaty for Reciprocal Assistance	September 1947	Established mutual aggression pact among the American Republics
U.S.-Portuguese Azores agreement	February 2, 1948	5-year access agreement for the United States to air bases on Azores islands
Economic Cooperation Act adopted by US Congress	April 3, 1948	• Legislative implementation of the European Recovery Program (Marshall Plan) for the economic recovery of Europe • $4 billion appropriated for the first year
Conference on Economic Security, Paris	April-May 1948	Allies reviewed, among other things, status of restitution of looted gold and liquidation and distribution of German external assets, and discussed common strategy on dealing with the neutral countries
Allied-Spanish accord on looted gold	April 30, May 3, 1948	Spain to turn over 101.6 kgs of looted Dutch gold ($114,329) (turned over full amount in 1948)
Allied-Spanish accord on German external assets	May 10, 1948	• Allies to receive proceeds from liquidation of all official, quasi-official assets • Proceeds from liquidation of private assets to be distributed according to agreed percentages
State letter to Treasury	August 25, 1948	Unblocked Portuguese assets in the United States
North Atlantic Treaty	April 4, 1949	Treaty signed by 12 nations, including Portugal, creating the North Atlantic Treaty Organization for collective defense (Turkey joined in 1952)
Portuguese Decree Law 37377	April 21, 1949	Authorized the liquidation of German assets in Portugal; proceeds to be kept in blocked account pending a decision on looted gold
Allied-Swiss talks, Bern	March-April 1951	"April 20 Understanding" on compensation for liquidation (which Germany rejected) • Germany to pay owners of liquidated property in Switzerland 50% of value (remainder to come from bonds issued by German Government) • Germany to receive 25% of proceeds to pay owners • Allies and Switzerland split the rest (75%)

Spain halted distribution of proceeds from liquidation of German external assets	July 1951	• Yield up to that point was 447.5 million pesetas ($41 million) • Spain had received 47.5 million pesetas ($4.3 million) • Allies had received 335 million pesetas ($30.5 million) • 65 million pesetas ($6 million) liquidated but not distributed to IARA (released to IARA pursuant to August 1958 agreement—see below)
U.S.-Portuguese Azores agreement	September 6, 1951	Access agreement for the U.S. to airbases on Azores for life of the North Atlantic Treaty
Allied-Swiss Agreement on Liquidation of German Property (Revising 1946 Washington Accord)	August 28, 1952	• Switzerland to pay the Allies a lump sum of 121.5 SF ($28.3 million), minus 20 million SF ($4.7 million) advanced to the Allies for the IRO in 1948, or 101.5 million SF ($23.6 million), in lieu of Switzerland's liquidation of German assets in Switzerland • From the 101.5 million SF, Allies contributed 13 million SF ($3 million) to bring the Paris Reparations Fund up to $25 million
Allied-Portuguese agreement	June 24, 1953	• 100 million escudos ($4 million) to IRO • 75 million escudos ($3 million) to IARA • 3.998 tons of gold ($4.5 million) to TGC • Not implemented because of German-Portuguese failure to reach agreement on wartime claims and debts
Allied-Spanish agreement	August 9, 1958	• 61 million pesetas ($1 million) liquidated since 1951 given to Spain (13.9 million pesetas ($200,000) to Czechoslovakia and Yugoslavia) • 65 million pesetas ($1.1 million) released to IARA • Became effective July 2, 1959
Allied-Portuguese-German agreement	October 27, 1958 (all obligations met by 1959)	• Portugal to pay Allies 12 million escudos ($418,000) from liquidated German assets • Portugal to pay Allies 132.5 million escudos or 3,999 kgs. of gold ($4.5 million) • Germany to pay Portugal 394.5 million escudos ($13.7 million) for wartime claims
Public Law 87-846	October 22, 1962	Provided for lump sum payment by the U.S. of $500,000 to the Jewish Restitution Successor Organization for refugees

Statement on Gold and Non-Gold Asset Values and Foreign Trade Values

The dollar figures for gold assets cited in the report and in the following charts are based on the 1946 value of gold at $35 per ounce. To assist readers, dollar values have been added to the weight of gold cited in the report and the following charts, as well as to assets denominated in a foreign currency. The calculations were based on the following considerations.

With respect to gold, the original documents usually cited the weight in kilograms or tons without indicating the dollar values or whether it was in U.S., British, or metric tons. The authors of this report have assumed that all figures in the documents were in metric tons unless otherwise noted. The authors estimated the dollar value of the gold according to the formula of $35 a troy ounce, or 32,150.7 fine troy ounces of gold per ton. Thus a ton of gold was valued at $1.125 million. When the documents referred to an amount of gold in kilograms only, the authors converted these weights into tons, so that a reader could follow more easily the history of the negotiations between the Allies and the neutral countries. During 1998 the value of gold has been 8 to 9 times higher than in 1946.

Regarding non-gold assets and trade data, the documents often did not specify the rates of exchange or dollar values. In such cases, the authors have relied on Bank for International Settlements and Federal Reserve published data. Estimating the dollar value of assets and trade denominated in foreign currencies was complicated by devaluations and the use in some countries of unofficial rates of exchange. To facilitate the readers' understanding, the authors have provided comparable dollar values for the foreign currency figures. Unless otherwise indicated, the dollar values were calculated at official rates of exchange. For various reasons, foreign currency parities changed over the years. For some currencies, official rates may not have reflected the true value of the assets, particularly if these currencies were subject to extensive exchange controls.

Conversion Factors for Past Year U.S. Dollars Into Current Year (1998)

The dollar figures for non-gold assets cited in the report and in the following charts are often from 50 years earlier. To convert their purchasing power into today's dollars (approximate values), multiply the figures by the following factors for the appropriate year:

1945: 8.9	1948: 6.6
1946: 8.2	1952: 6.0
1947: 7.2	1962: 5.3

Sources of Contributions to the $25 Million Paris Reparation Fund [1]
(Established by Part I, Article 8 of the Paris Agreement)

Dates Received	Country	Kroner	Francs	Dollar Equivalent
July 12, 1947	Sweden	50,000,000 [2]		$13.5 million
July 27, 1948	Switzerland		20,000,000	$4.7 million
September 11, 1953	Switzerland		12,896,917	$3.0 million
March 29, 1955-December 15, 1956	Allied payment on behalf of Portugal [3]		15,209,909	$3.5 million
Total				$24.7 million

[1] The Allies regarded the $25 million Reparations Fund as an upper limit of payments from the liquidation of German assets in neutral countries. The 1948 Swiss contribution of 20 million SF ($4.7 million) was an advance to the Allies against the Swiss share of the eventual proceeds from liquidation of German assets in Switzerland. The 1953 Swiss contribution was part of the lump sum payment of 121.5 million SF ($28 million) that Switzerland made to the Allies in 1953.

[2] In July 1947 the Swedish Government transferred the 50 million Swedish kroner ($13.5 million) into a blocked account at the Sveriges Riksbank as the kroner was at the time an inconvertible currency. Thus, Swedish funds were not immediately available to the designated refugee and relief organizations, and then only in phased amounts.

[3] The Portuguese contribution was paid by the Allies out of the Swiss francs acquired by the Allies from Switzerland pursuant to the 1952 Allied-Swiss agreement. Portugal did not repay the Allies specifically for the Allies' payment to the Reparations Fund on its behalf.

Tripartite Gold Commission
(Established by Part III of the 1946 Paris Agreement)

Source of Contributions[1]	Dollars	Gold Equivalent	Year
Foreign Exchange Depository (OMGUS)[2]	$263,680,452.94		1947
Switzerland	$58 million (250 million SF)	51.6 metric tons 1,659,121 troy ozs	1947
Bank for International Settlements	$4.2 million	3,740 kgs	1948
Spain	$114,329	101.6 kgs	1948
Sweden	$8 million	7,155 kgs	1949
Sweden	$6.8 million	6 tons	1955
Portugal	$4.5 million	3,998 kgs	1959

[1] The 1946 value of gold was $35 per ounce. During 1997 and 1998 its value was 8 to 10 times higher.

According to the undated report of the Tripartite Gold Commission presented to the London Conference on Nazi Gold in December 1997 by Emrys Davies, Secretary General of the TGC, the gold recovered by the TGC through September 1996 totaled 10.8 million ounces or over 336 tons. The TGC report presented the following rounded figures of the sources of the most significant contributions to the total gold pool:

Foreign Exchange Depository	7.5 million ounces
Switzerland	1.7 million ounces
Sweden	423,000 ounces
Spain	3,300 ounces
Romania	578,000 ounces
Portugal	128,600 ounces
BIS	120,200 ounces
Zones of Occupation of Austria	145,000 ounces
Zones of Occupation of Germany	96,200 ounces
Recovered directly by Czechoslovakia from Switzerland	119,300 ounces

The TGC/Davies report concludes: the original claims of ten claimant countries for the return of looted monetary gold totaled 735 tons and total claims validated by the TGC amounted to 514 tons; of the 336 tons that the Allies were able to collect in the gold pool, of which 5.5 tons have not yet been distributed, the TGC has been able to restitute gold amounting to 64 percent of the validated claims submitted by the claimant countries.

The report of the Swiss Independent Commission of Experts, "Gold Transactions in the Second World War: Statistical Review With Commentary, December 1997, p. 5, estimates total gold transactions of the Reichsbank from September 1, 1939, to June 30, 1945, at $909.2 million of which $475 million was obtained (looted) from other national banks including those of Belgium–$225.9 million, the Netherlands–$137 million, Luxembourg–$4.8 million, Hungary–$32.2 million, Italy–$64.8 million, and other central banks–$10.1 million. The report also calculates that $146 million of the Reichsbank gold reserve came from "individuals," including $71.8 million obtained from German citizens and citizens of occupied countries, $2.5 million in gold turned over to the Reichsbank by SS Captain Bruno Melmer, and an estimated total of $71.7 million from other private holdings, including gold of concentration camp victims not accounted for elsewhere and the proceeds from the sale of jewelry and other valuables of the Nazi victims.

[2] The Foreign Exchange Depository (FED) in Frankfurt was the repository for all gold and monetary assets recovered in Germany after the war.

According to the undated Bank of England report presented to the London Conference on Nazi Gold in December 1997, "The Bank of England's Role as Custodian of the Tripartite Gold Commission's Holdings of Gold," the Bank had little evidence of the receipt of items to the TGC account that could be regarded as personal gold. The report does identify 134 kilograms of "coins, medals, and tokens" received in 1948, presumably from the FED, which the TGC instructed the Bank to melt into "good deliverable bars" after a curator at the British museum decided that none of the items had numismatic or historical value. The report also notes that the TGC deposited with the Bank in October 1996 two bars of gold with Prussian Mint markings. These two bars, part of the re-smelted looted Belgian monetary gold, appear to have been recovered by U.S. forces in Germany in 1945 but were unaccountably held in Munich "where they were held on special closed deposit" until transferred to the U.S. authorities in 1996 who in turn transferred them to the TGC, and the TGC deposited them at the Bank of England.

According to the undated Federal Reserve Bank of New York report presented to the London Conference, the Federal Reserve Bank received on February 26, 1952, from the U.S. High Commissioner for Germany 17 boxes of "Law 53" gold collected from the U.S. zone of Germany, weighing 20,999 ounces and comprising various gold bars, coins, and miscellaneous items referred to in the gold trade as "finger bars," "chips," "sheets," "buttons," etc. (There was no evidence to support a conclusion that this gold originated from the victims of Nazi persecution, as has been erroneously reported in some news reports. Military Law 53 was a 1948 directive under which U.S. Military Government authorities assumed custody in the U.S. zone of occupation of Germany of all substantial amounts of currencies, securities, precious gems, and precious metals. Evidence was presented in the Preliminary Report of May 1997 that an unquantifiable amount of victim gold was swept up into the Law 53 gold in Germany.) Attachment D to the report was the reproduction of the detailed listing of the contents of the 17 boxes. Of this gold, 17,218 ounces (see TGC Account Activity entry for May 20, 1952) was re-smelted by the U.S. Assay Office into 43 bars of gold representing about .08 percent of all of the gold ever held by the TGC in its account at the Federal Reserve Bank. All 43 bars were subsequently disbursed by the TGC to various claimant countries. The report further noted that four of the remaining (in December 1997) 162 gold bars in the TGC account at the Federal Reserve originated with this October 1952 deposit from the U.S. High Commissioner: two bars were produced in 1921 by the U.S. Assay Office and two bars were produced by the Societe de Banque Suisse Le Locle and bear no year stamp.

Argentina

German Assets

	Argentine pesos	Dollars
Allied estimates, May 1946	680 million	$200 million
–amount from German banks in Argentina	66 million	$19.7 million
Turned over to Allies/IARA	*	*

*Under the Act of Chapultepec, the Allies and IARA had no claim to German assets in Argentina. Argentina was entitled to vest those assets.

Monetary Gold

The Allies found no conclusive evidence that looted gold reached Argentina.

Portugal

German Assets[1]

	Escudos	Dollars
Allied estimates, June 1946	920 million	$36.8 million
Allied estimates November 1949	625 million	$21.7 million
Allied estimates, April 1951[2]	400 million	$13.9 million
Turned over to Allies/IARA, 1958	15.87 million	$552,000[3]

[1] Portugal maintained its currency at 25 escudos to the dollar during the War. Portugal devalued its currency to 28 in September 1949 and to 28.77 in November 1949. The escudo stabilized at about 28.75 during the 1950s.

[2] By this time, German State assets had been liquidated (43.889 million escudos; $1.53 million) and placed in a blocked account; remaining assets had depreciated in value.

[3] This sum included $134,000 in escudos and other currencies, in addition to $418,000 (12 million escudos).

Monetary Gold

	Gold	Dollars
Allied estimates, July 1946[1]	123.827 tons	$139.3 million
–amount acquired from the Swiss National Bank	103.7 tons	$116.7 million
–of that, amount looted	74.67 tons	$84 million
–looted Belgian gold acquired from Reichsbank account at the Swiss National Bank	20.117 tons	$22.6 million
–total looted gold	94.787	$106.6 million
Gold Subcommittee Report estimates, March 1947, of Portugal's acquisitions, 1939-1945	46.76 tons	$52.6 million
–amount looted	38.45-43.95 tons	$43.3-49.4 million
Allied demands in November 1947 negotiations	38.331 tons	$43.1 million
Turned over to Allies/TGC, 1959	3,998 kgs	$4.5 million

[1] According to the Swiss Independent Commission of Experts, "Gold Transactions in the Second World War: Statistical Review With Commentary," December 1997, pp. 14, 16, and 17, the Swiss National Bank sold to Portugal $104.2 million in gold, and the Reichsbank sold to the Portuguese National Bank via the Swiss National Bank $49.5 million in gold.

According to an undated paper submitted to William Slany by the Swiss National Bank, Portugal purchased 86.7 tons of gold directly from the Swiss National Bank, and 48.9 tons from the Reichsbank deposit at the Bank, a total of 135.6 tons of gold. The purpose of the purchases are not explained in the paper.

Spain

German Assets

	Pesetas	Dollars
Allied estimates, July 1946	1,045 million	$95 million
–official (German State) assets	165 million	$15 million
–quasi-official (German-controlled) assets	385 million	$35 million
–private assets	495 million	$45 million
Allied estimates, May 1948[1]	625-650 million	$57-59 million
–official, quasi-official	225-250 million	$20-23 million
–private	400 million	$36 million
Proceeds from liquidation as of July 1951 (when Spain stopped liquidation)	447.5 million	$40.7 million
–amount Spain received	47.5 million	$4.3 million
–amount Allies received	335 million	$30.5 million
–amount Spain refused to distribute	65 million	$5.9 million
Proceeds pursuant to August 1958 Allied-Spanish agreement, effective July 1959[2]		
–amount distributed to IARA	65 million	$1.1 million
–amount delivered to Czechoslovakia and Yugoslavia from proceeds liquidated after 1951	13.9 million	$.2 million
–amount kept by Spain from proceeds liquidated after 1951	61 million	$1 million
Total turned over to Allies/IARA by 1959[3] (includes $1.2 million in miscellaneous currencies)		$32.8 million

[1] The drop in the estimates of the value of the German assets in Spain was due to depreciation of the assets and the gradual devaluation of the peseta.

[2] The Spanish peseta's official parity from 1941 until 1957 was about 11 pesetas to 1 U.S. dollar, although this appeared to be far out of line with black market exchange rates. In 1957 and 1959 Spain devalued twice to 42 and to 60 to establish a more defensible rate of exchange.

[3] The 1948 accord with Spain did not obligate it to deliver an exact amount in liquidated private assets. Instead, the accord listed a complex formula for dividing up the proceeds as they were realized. The Allied portion came out to about 76 percent of the first $24.1 million realized ($18.3 million) and 30 percent of all proceeds over $24.1 million. By the time the last assets were delivered to the IARA in 1959, the Spanish peseta had been drastically devalued, as reflected in the final payment of $32.8 million.

Spain (Continued)

Monetary Gold

	Gold	Dollars
Allied estimates, August 1946, of Spain's acquisitions, 1942-1945[1]	122.852 tons	$138.2 million
–from the Axis	11 tons	$12.4 million
–from the Swiss National Bank (SNB)	37.852 tons	$42.6 million
–from German accounts at the SNB	74 tons	$83.3 million
Allied determination, January 1948, of Foreign Exchange Institute acquisitions of looted gold from SNB, Bank of Portugal, Banco Aleman Transatlantico[2]	26.8 tons	$30.3 million
–Dutch gold liable for restitution	101.6 kgs	$114,329
Turned over to Allies/TGC, 1948	101.6 kgs	$114,329

[1] Does not include 2.6 tons of gold ($2.9 million) Spain purchased directly from Germany, which was later determined to have been minted into coins and thus too difficult to identify and recover.

According to the Swiss Independent Commission of Experts, "Gold Transactions in the Second World War: Statistical Review With Commentary," December 1997, pp. 14, 16, 17, the Swiss National Bank sold $42.7 million in gold to Spain from the beginning of 1942, and the Reichsbank sold through the SNB to the Spanish National Bank $20.4 million in gold.

According to a paper submitted to William Slany by the Swiss National Bank on January 5, 1998, "Some Detailed Facts Relating to the Swiss National Bank's (SNB) Gold Operations During the Second World War," Spain purchased 38 tons of gold directly from the Swiss National Bank, and 1.4 tons from the Reichsbank deposit at the Bank, a total of 39.4 tons of gold.

[2] According to the report presented by the Spanish Commission to the London Conference on Nazi Gold, December 1997, p. 3, the Spanish Foreign Exchange Institute (Instituto Español de Moneda Extranjera) acquired between 1939 and 1945 from the Swiss National Bank 38.594 tons of gold (about $43.4 million) and 2.507 tons (about $2.8 million) from the Banco Aleman Transatlantico.

According to the report of the Spanish Comisión de Investigación of April 8, 1998, Spain acquired a total of 67.4 tons of gold ($75.8 million) through the Foreign Exchange Institute. Of this amount, 38.6 tons ($43.4 million) were bought from the Swiss National Bank, 14.9 tons from the Bank of England, 9.1 tons from the Bank of Portugal, .8 tons from the Bank for International Settlements, 2.5 tons from the Banco Aleman Transatlantico, 1.4 tons from the Banco Exterior de España. All the gold was in ingots of diverse origins; 56.9 tons of the gold were stored in the vaults of the Bank of Spain in Madrid, and 10.5 tons were deposited outside of Spain. The report asserts that during the War, the Foreign Exchange Institute made three purchases of gold directly from German institutions: the 2.5 tons from Banco Aleman Transatlantico in 1942, the 1.4 tons from the Banco Exterior de España in April 1944, and 3.4 tons of gold coins brought into Spain in July-August 1944 by SOFINDUS and sold to the Foreign Exchange Institute, for a total of 7.3 tons ($8.2 million). German gold also entered Spain through the diplomatic pouch for the German Embassy (1.5 tons) and was smuggled in to finance the activities of SOFINDUS to purchase wolfram and other strategic minerals (12.8-16.1 tons). In no case were these official certified purchases of gold by the Foreign Exchange Institute.

Sweden

German Assets

	Kroner	Dollars
Allied estimates used in Allied-Swedish negotiations, May 1946	378 million	$90.7 million
Disposition agreed to in July 1946 accord:		
–to Intergovernmental Committee on Refugees	50 million	$12.5 million
–to Inter-Allied Reparations Agency	75 million	$18 million
–to a special account at Riksbank for assistance in preventing disease and unrest in Germany	150 million	$36 million
Turned over to Allies/IARA	275 million	$66.5 million

Monetary Gold [1]

	Gold	Dollars
Allied estimates	16.4-20.1 tons	$18.5-22.7 million
Amount of Belgian gold restituted, 1949[2]	7,155.32644 kgs.	$8 million
Amount of Dutch gold restituted, 1955	479 bars 6,000 kgs.	$6.8 million
Turned over to Allies/TGC		$14.9 million

[1] According to the Swiss Independent Commission of Experts, "Gold Transactions in the Second World War: Statistical Review With Commentary," December 1997, pp. 14, 16, and 17, the Swiss National Bank sold no gold to Sweden, but the Reichsbank sold to the Sveriges Riksbank via the SNB $20.4 million in gold and the Reichsbank transferred to the Sveriges Riksbank directly $4.6 million in gold. A paper submitted to William Slany by the Swiss National Bank on January 5, 1998, "Some Detailed Facts Relating to the Swiss National Bank's (SNB) Gold Operations During the Second World War," agrees that Sweden purchased no gold from the Swiss National Bank, but did purchase 17.9 tons from the Reichsbank deposit at the Bank.

In connection with the London Conference on Nazi Gold, the Swedish Independent Archives Inquiry presented its report to the Sveriges Riksbank in December 1997 entitled "Sweden's Gold Transactions With Nazi Germany." This Swedish report (Section 1,3,3,2 in particular) presents a detailed accounting of gold acquisitions, purchases, and transfers with the Reichsbank and calculates the total for the 1940-1944 period at 59,697 kilograms. Of this total, 7,311.3339 kilograms ($8.2 million) had been looted from the Belgian central bank and 8,607.5772 kilograms ($9.7 million) represented looted Dutch monetary gold. Sections 1,3, 4,3 and 1,3,4,4 of the Swedish report confirm the May 1997 U.S. Preliminary Report's conclusion that postwar Swedish-Allied agreements resulted in the transfer of 7,155 kilograms (7.2 tons) of gold to the TGC in 1949 to settle the Belgian looted gold claim and the transfer of approximately 6 tons of gold to the TGC in 1955 to settle the Dutch claims.

[2] The Allied-Swedish Accord of July 1946 envisaged the restitution by Sweden, pending certain additional fact-checking, of 7,155 kilograms of Belgian looted gold. The Accord also provided that other occupied countries could make claims for the restitution of looted gold until July 1947. The Netherlands made such a claim for the restitution of 8,607 kilograms of looted gold, and the Allied-Swedish negotiations on behalf of this claim eventually resulted in Sweden restituting in 1955 some 6 tons of gold, or three-quarters of the Netherlands' claim.

Turkey

German Assets

	Turkish Lire (TL)	Dollars
FEA estimates, February 1946	229-319.5 million TL	$51-71 million
–public assets	103.5 million TL	$23 million
–private assets	126-216 million TL	$28-48 million
Estimates used in Allied-Turkish negotiations, June-July 1947	230.4 million TL	$51.2 million
Turned over to Allies/IARA	None[1]	None[1]

[1]Because Turkey declared war on Germany in February 1945, it was not required to turn over any proceeds from liquidated assets.

Turkey (Continued)

Monetary Gold

	Gold	Dollars
FEA estimates, March 1947		$10-15 million
–held by Turkish Government		$3.5 million
–held by private individuals		$6.5-11.5 million
Estimates used in Allied-Turkish negotiations, June-July 1947[1]		
–Belgian origin gold	3,000 kgs	$3.4 million
–coins acquired from German Embassy, Ankara	32,799 coins 243.6 kgs	$400,000
Turned over to Allies/TGC	None[2]	None

[1]Not included are 11 tons of gold ($12.4 million) that Turkey attempted to sell to the Bank of England July 22, 1947.

According to the Swiss Independent Commission of Experts, "Gold Transactions in the Second World War: Statistical Review With Commentary," pp. 14, 16, and 17, the Swiss National Bank sold Turkey $3.4 million in gold, and the Reichsbank sold to the Turkish Central Bank through the SNB $3.5 million in gold and the Reichsbank transferred directly to the Turkish Central Bank $5.7 million in gold. According to a paper submitted to William Slany by the Swiss National Bank on January 5, 1998, "Some Detailed Facts Relating to the Swiss National Bank's (SNB) Gold Operations During the Second World War," Turkey purchased 3 tons of gold from the Swiss National Bank.

According to an undated "Gold Report" provided to Under Secretary of State Eizenstat on December 1, 1997, by Turkish Minister of State Sukru S. Gurel, in May 1943 the SNB, acting in response to a decision of the Central Bank of the Republic of Turkey (CBRT), purchased on behalf of the CBRT 3,048 kilograms of gold for 15 million Swiss francs ($3.4 million). Because of the wartime difficulties in transporting gold, the CBRT accepted the offer of the Reichsbank to supply Turkey with 249 gold bars weighing 3,047 kilograms in exchange for which the SNB transferred 3,048 kilograms of its gold to the Reichsbank. The 249 Reichsbank bars were received by Turkey on June 3, 1943. The "Gold Report" reports two other instances of Turkish purchases of German gold. On July 6, 1942, the CBRT bought 2,017 kilograms of gold (about $2.3 million) from the Reichsbank and ordered the Sveriges Riksbank and the SNB to credit their Reichsbank accounts with 4.5 million kroner and 5.18 million Swiss francs, respectively. The Report also describes how 223 kilograms of gold bars and 32,799 gold coins handed over by the German Embassy in Ankara to the CBRT via the Swiss Embassy at the end of the War were eventually all returned to the Deutsche Bank and the Dresdner Bank (100 kilograms of gold bars and 20,000 gold coins) and the Federal German Government (123 kilograms of gold bars and 12,799 gold coins), pursuant to a German-Turkish protocol signed in Bonn on November 3, 1960. In a report of March 5, 1998, Dr. D. Bourgeois of the Swiss Federal Archives transmitted a copy of the 9-page July 1, 1946, accounting of the gold, coins, and other valuables received from the German Embassy on April 16, 1945, and subsequently handed over to the Turkish authorities on February 28, 1946. A copy of this report was shared with William Slany by the Swiss Embassy in Washington.

According to the Turkish "Gold Report," gold assets at the CBRT rose from 27.4 metric tons in 1939 to more than 216 tons at the end of 1945. The Report points out that Turkey's foreign trade surplus for 1939-1946 totaled $341.5 million, equivalent to 303.6 metric tons of gold, and explains the increase in Turkey's gold reserve.

[2]The Allies reached no agreement with Turkey for the restitution of looted gold, and Turkey returned no looted gold.

Switzerland

German Assets

	Swiss Francs	Dollars
Allied estimates used in Allied-Swiss negotiations, 1946		
Treasury Department	2 billion SF	$500 million
State Department	1-2 billion SF	$250-500 million
Turned over to Allies/IARA [1]	121.5 million SF	$28 million
–Agreed to advance to the Allies for refugees out of the proceeds from liquidated German assets	50 million SF	$11.7 million
–Actually paid to the Allies, 1948 [2]	20 million SF	$4.7 million
–Paid lump sum to the Allies for IARA, in lieu of proceeds from liquidated German assets, 1953	101.5 million SF	$23.6 million

[1] According to the terms of the Allies-Swiss Accord, the Swiss were obligated to pay to the Allies 50% of the proceeds of liquidated assets subject to the Accord.

[2] In 1947 the IARA reported that German assets in Switzerland totaled $233 million and that only half that amount ($116 million) would be subject to liquidation under the Allied-Swiss Accord, which excluded certain categories of assets. The excluded categories (modified during 1946-1952) comprised assets of dual nationals and of Nazi persecutees, later extended to assets of less than 10,000 Swiss francs. Under the terms of the Accord, the Swiss and the Allies would each take half the amount subject to liquidation, or $58 million each. But, instead, in 1952 the Allies and Switzerland, together with the new West German Government, agreed on a lump sum settlement of $28 million in lieu of liquidation.

Monetary Gold

	Dollars	Swiss Francs
Allied estimates of German gold reserves and movements, 1939-1945	$781-785 million	
– amount looted	$579 million	
Estimates of gold traded by Germany to Switzerland [1]	$398-414 million	
– amount of looted gold to Switzerland [2]	$185-289 million ($316 million estimated by Bergier Commission)	
Amount of Belgian gold Swiss admitted to receiving	$88 million	378 million SF
Amount of gold Swiss agreed to transfer to the Allies	$58 million	250 million SF

[1] According to the Swiss Independent Commission of Experts, "Gold Transactions in the Second World War: Statistical Review With Commentary," December 1997, pp. 10, 12, and 22, the Reichsbank transferred to Switzerland $450.4 million in gold between 1940 and 1945, while the Reichsbank transferred directly to other national banks $92.4 million in gold and transferred another $51.5 million to its branch banks, mostly in southeastern Europe for military and espionage purposes. According to the remarks of Commission Chairman Jean-Francois Bergier at the London Conference on Nazi Gold, December 3, 1997, all the monetary gold transferred to Switzerland from 1942 onward ($316 million) was probably looted.

[2] The State Department estimated that during the War, Switzerland purchased from Germany $276 million in gold, and that "the larger part was looted gold." In addition, part of the gold that Switzerland sold during the War to Portugal, Spain, and Turkey ($138-148 million) could have been looted German gold. The Treasury Department estimated the amount of looted gold that Switzerland received from Germany at a minimum of $185 million but more likely $289 million.

Summary

	German external assets			Monetary gold		
	Allied estimates	**Terms of accord with the Allies**	**Turned over to Allies/IARA**	**Allied estimates**	**Terms of accord with the Allies**	**Turned over to Allies/TGC**
Argentina	$200 million	N/A[1]	N/A	None	N/A	N/A
Portugal	$36.8 million	$418,000 in assets (October 1958 accord)	$552,000 in escudos, other currencies [2]	up to $139.3 million ($43.3-106.6 million looted) up to 123.8 tons (38.5-94.79 tons looted)[3]	3,998 kgs $4.5 million	3,998 kgs $4.5 million, 1959
Spain	$95 million	$20 million in State assets $21 million in private assets[4]	$32.8 million in all assets	up to $138.2 million ($30.3-98.7 million looted) up to 122.9 tons (26.8-87.7 tons looted)[5]	101.6 kgs $114,329	101.6 kgs $114,329 (1948)
Sweden	$90.7 million 378 million kroner	$66.5 million [6] 275 million kroner	$66.5 million	$18.5-22.7 million looted[7]	$14.9 million[8]	$14.9 million (1949, 1955)
Turkey	$51-71 million	N/A [9]	N/A	$10-15 million looted[10]	N/A	N/A
Switzerland	$250-750 million	$58 million [11]	$28 million	$398-414 million ($185-289 looted) ($316 million looted according to Bergier Commission)[12]	$58 million	$58 million, 1947

[1] Under the Act of Chapultepec, the Allies and Inter-Allied Reparations Agency (IARA) had no claim to German assets in Argentina. Argentina was entitled to vest those assets.

[2] Portugal's final payment to the IARA included about $134,000 in escudos and other currencies.

[3] According to the Swiss Independent Commission of Experts, "Gold Transactions in the Second World War: Statistical Review With Commentary," December 1997 [hereafter cited as SICE, "Gold Transactions"], pp. 14, 16, and 17, the Swiss National Bank sold to Portugal $104.2 million in gold, and the Reichsbank sold to the Portuguese National Bank via the SNB $49.5 million in gold. According to an undated SNB paper, Portugal purchased 86.7 tons of gold directly from the Swiss National Bank, and 48.9 tons from the Reichsbank deposit at the Bank, a total of 135.6 tons of gold.

[4] The 1948 accord with Spain did not obligate it to deliver an exact amount in liquidated private assets. Instead, the accord listed a complex formula for dividing up the proceeds as they were realized. The Allied portion came out to about 76 percent of the first $24.1 million realized ($18.3 million) and 30 percent of all proceeds over $24.1 million. By the time the last assets were delivered to the IARA in 1959, the Spanish peseta had been drastically devalued, as reflected in the final payment of $32.8 million.

[5] According to SICE, "Gold Transactions," pp. 14, 16, and 17, the Swiss National Bank sold $42.7 million in gold to Spain from the beginning of 1942,

and the Reichsbank sold through the SNB to the Spanish National Bank $20.4 million in gold. Regarding the estimate that all of the Reichsbank gold transferred to Switzerland from 1942 onward was probably looted, see footnote 12 below. According to the SNB paper of January 5, 1998, Spain purchased 38 tons of gold directly from the Swiss National Bank, and 1.4 tons from the Reichsbank deposit at the Bank, a total of 39.4 tons of gold. According to the report presented by the Spanish Commission to the London Conference on Nazi Gold, December 1997, p. 3, between 1939 and 1945, the Spanish Institute for Foreign Exchange (Instituto Espanol de Moneda Extranjera) acquired 38.594 tons of gold (about $43.4 million) from the Swiss National Bank and 2.507 tons (about $2.8 million) from the Banco Aleman Transatlantico. According to the report of the Spanish Comisión de Investigación of April 8, 1998, Spain acquired a total of 67.4 tons of gold ($75.8 million) through the Foreign Exchange Institute. Of this amount, 38.6 tons ($43.4 million) were bought from the Swiss National Bank, 14.9 tons from the Bank of England, 9.1 tons from the Bank of Portugal, .8 tons from the Bank for International Settlements, 2.5 tons from the Banco Aleman Transatlantico, 1.4 tons from the Banco Exterior de España. All the gold was in ingots of diverse origins; 56.9 tons of the gold were stored in the vaults of the Bank of Spain in Madrid, and 10.5 tons were deposited outside of Spain. The report asserts that during the War, the Foreign Exchange Institute made three purchases of gold directly from German institutions: the 2.5 tons from Banco Aleman Transatlantico in 1942, the 1.4 tons from the Banco Exterior de España in April 1944, and 3.4 tons of gold coins brought into Spain in July-August 1944 by SOFINDUS and sold to the Foreign Exchange Institute, for a total of 7.3 tons ($8.2 million). German gold also entered Spain through the diplomatic pouch for the German Embassy (1.5 tons) and was smuggled in to finance the activities of SOFINDUS to purchase wolfram and other strategic minerals (12.8-16.1 tons). In no case were these official certified purchases of gold by the Foreign Exchange Institute.

In a letter of December 22, 1997, to Under Secretary of State Eizenstat, James R. Hennessy, Counsel to the Federal Reserve Bank of New York, reported that gold looted from Belgium and the Netherlands and re-smelted by the German Government into Prussian Mint bars, had been included in gold offered by the Spanish Government as collateral for loans totaling $30 million from the National City Bank (now Citibank) in 1951. Of the $30 million in gold collateral, $10.9 million was determined by the National City Bank to consist of looted gold. According to Hennessy's letter and to copies of attached documents, the National City Bank was assured by the Treasury Department that the gold was tainted only in the hands of the first purchaser (Switzerland), had been disclosed by Spain at the time of the Allied-Spanish postwar negotiations, and was therefore eligible for purchase by the United States. Hennessy's letter also cites a 1949 letter from the State Department to the Chase National Bank asserting that no claim could be made against gold in Spain's account on the basis that the gold was looted and Spain was not limited in disposing of gold holdings that included looted gold. The Prussian Mint bars were duly transferred to New York, re-smelted into new bars by the U.S. Assay Office, and transferred to the National City Bank account at the Federal Reserve Bank. Hennessy's letter also reported that no information had been found in the records of the Federal Reserve Bank of New York to indicate that any of the Prussian Mint bars included victim gold.

[6] Of the $66.5 million, $12.5 million (50 million kroner) was for the Intergovernmental Committee on Refugees (IGCR), $18 million (75 million kroner) was for the IARA, and $36 million (150 million kroner) was for a special fund in Sweden to purchase essential commodities for the German economy.

[7] According to SICE, "Gold Transactions," pp. 14, 16, and 17, the Swiss National Bank sold no gold to Sweden, but the Reichsbank sold to the Sveriges Riksbank via the SNB $20.4 million in gold and the Reichsbank transferred to the Sveriges Riksbank directly $4.6 million in gold. The SNB paper of January 5, 1998, agreed that Sweden purchased no gold directly from the Bank, but did purchase 17.9 tons from the Reichsbank deposit at the Bank. In connection with the London Conference on Nazi Gold, the Swedish Independent Archives Inquiry presented its report to the Sveriges Riksbank in December 1997 and entitled "Sweden's Gold Transactions With Nazi Germany." This Swedish report (Sec. 1,3,3,2 in particular) presents a detailed accounting of gold acquisitions, purchases, and transfers with the Reichsbank and calculates the total for the 1940-1944 period at 59,697 kilograms. Of this total, looted Belgian monetary gold totaled 7,311 kilograms and looted Dutch monetary gold totaled 8,607 kilograms. The Swedish report (Sec. 1,3, 4,3 and 1,3,4,4) confirms the May 1997 U.S. Preliminary Report's conclusion that postwar Swedish-Allied agreements resulted in the transfer of 7,155 kilograms (7.2 tons) of gold to the TGC in 1949 to settle the Belgian looted gold claim and the transfer of approximately 6 tons of gold to the TGC in 1955 to settle the Dutch claims.

[8] The Allied-Swedish Accord of July 1946 envisaged the restitution by Sweden, pending certain additional fact-checking, of 7,155 kilograms of Belgian looted gold. The Accord also provided that other occupied countries could make claims for the restitution of looted gold until July 1947. The Netherlands made such a claim for the restitution of 8,607 kilograms of looted gold, and the Allied-Swedish negotiations on behalf of this claim eventually resulted in Sweden restituting in 1955 some 6 tons of gold, or three-quarters of the Netherlands' claim.

[9] Because Turkey declared war on Germany in February 1945, it was not required to turn over any proceeds from liquidated assets.

[10] According to SICE, "Gold Transactions," pp. 14, 16, and 17, the Swiss National Bank sold Turkey $3.4 million in gold, and the Reichsbank sold to the Turkish Central Bank through the SNB $3.5 million in gold and the Reichsbank transferred directly to the Turkish Central Bank $5.7 million in gold. According to the SNB paper of January 5, 1998, Turkey purchased 3 tons of gold from the Swiss National Bank.

According to an undated "Gold Report" provided to Under Secretary of State Eizenstat on December 1, 1997, by Turkish Minister of State Sukru S. Gurel, in May 1943 the SNB, acting in response to a decision of the Central Bank of the Republic of Turkey (CBRT), purchased on behalf of the CBRT 3,048 kilograms of gold for 15 million Swiss francs ($3.4 million). Because of the wartime difficulties in transporting gold, the CBRT accepted the offer of the Reichsbank to supply Turkey with 249 gold bars weighing 3,047 kilograms in exchange for which the SNB transferred 3,048 kilograms of its gold to the Reichsbank. The 249 Reichsbank bars were received by Turkey on June 3, 1943. The "Gold Report" reports two other instances of Turkish purchases of German gold. On July 6, 1942, the CBRT bought 2,017 kilograms of gold (about $2.3 million) from the Reichsbank and ordered the Sveriges Riksbank and the SNB to credit their Reichsbank accounts with 4.5 million kroner and 5.18 million Swiss francs, respectively. The Report also describes how 223 kilograms of gold bars and 32,799 gold coins handed over by the German Embassy in Ankara to the CBRT via the Swiss Embassy at the end of the War were eventually all returned to the Deutsche Bank and the Dresdner Bank (100 kilograms of gold bars and 20,000 gold coins) and the Federal German Government (123 kilograms of gold bars and 12,799 gold coins), pursuant to a German-Turkish protocol signed in Bonn on November 3, 1960. In a report of March 5, 1998, Dr. D. Bourgeois of the Swiss Federal Archives transmitted a copy of the 9-page July 1, 1946, accounting of the gold, coins, and other valuables received from the German Embassy on April 16, 1945, and subsequently handed over to the Turkish authorities on February 28, 1946. A copy of this report was shared with William Slany by the Swiss Embassy in Washington.

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[11] In 1947 the IARA reported that German assets in Switzerland totaled $233 million and that only half that amount ($116 million) would be subject to liquidation under the May 1946 Allied-Swiss Accord, which excluded certain categories of assets. The excluded categories (modified during 1946-1952) comprised assets of dual nationals and of Nazi persecutees, later extended to assets of less than 10,000 Swiss francs. Under the terms of the Accord, the Swiss and the Allies would each take half of the amount subject to liquidation, or $58 million each. In 1952 the Allies and Switzerland, together with the new West German Government, agreed on a lump sum settlement of $28 million in lieu of liquidation.

[12] According to SICE, "Gold Transactions," pp. 10, 12, and 22, the Reichsbank transferred to Switzerland $450.4 million in gold between 1940 and 1945 while the Reichsbank transferred directly to other national banks $92.4 million in gold and transferred another $51.5 million to its branch banks, mostly in southeastern Europe for military and espionage purposes. According to the remarks of SICE Chairman Jean-Francois Bergier at the London Conference on Nazi Gold, December 3, 1997, all of the monetary gold transferred to Switzerland from 1942 onward ($316 million) was probably looted.

Timeline of Trade, Belligerency, and Postwar Gold and Asset Negotiations and Agreements

Neutrals/ Non-belligerents[1]	Major exports to Germany	Other contributions to Germany	Contributions to Allies	Diminution of German military threat[2]	Initial significant concession to Allied demands	When ceased exports to Germany	Declaration of war against Germany	When postwar negotiations began	Date of accord	When gold delivered	When assets delivered
Argentina (neutral, broke relations with Axis January 1944)	none	base for espionage, smuggling, propaganda	meat; shipping	N/A	N/A	January 1944	March 27, 1945	N/A	N/A	N/A	N/A
Portugal (pro-Allied neutral)	wolfram; cork	industrial diamonds; platinum; foodstuffs	wolfram (preclusive purchases); bases; protection of Jews	Fall 1943[3]	U.K-Portugal Azores access agreement (August 1943; effective October 1943)	June 1944	N/A	September 1946	October 1958 (March 1947 accord not implemented)	1959	1958
Spain (pro-Axis non-belligerent until neutrality October 1943)	wolfram; iron ore	Blue Division; industrial diamonds; platinum	wolfram, wool (preclusive purchases); food; rescue of Allied pilots	Fall 1943[3]	Franco declaration of neutrality; withdrawal of Blue Division (October 1943)	April 1944 (wolfram exports limited only; ceased in August)	N/A	September 1946	May 3, 1948 (gold) May 10, 1948 (assets)	1948	1948-1959
Sweden (neutral)	iron ore; ball bearings; wood products	transshipment of arms and troops; Baltic naval escorts	rescue of Jews and Allied pilots	Fall 1944 *(Summer 1943)*[4]	Swedish abrogation of Swedish-German transit agreement (August 1943)	November 1944	N/A	May 1946	July 1946	1949, 1955	1946-1955
Turkey (non-belligerent, June 1940-February 1945	chromite; fibers	access to Dardanelles	chromite (preclusive purchases); protection of Jews	Fall 1943 *(Summer 1944)*[5]	Turkish willingness to enter the war (December 1943) *(Turkish break in relations with Germany, August 1944)*[7]	August 1944 (chromite exports ceased in April)	February 23, 1945	September 1946	N/A	N/A	N/A
Switzerland (neutral)	food; arms; industrial products	finance; permitted transshipment of goods, arms, and troops	diplomatic representation; protection of some Jews and POWs; rescue of Allied pilots; Allied listening post	Fall 1944[6]	Swiss negotiation of an economic agreement with the Allies (Currie Mission, January-March 1945)[8]	Some trade and gold transactions until end of war	N/A	March 1946	May 1946	1947	1948-1952

[1] For a discussion of the terms "Neutral" and "Non-belligerent," please see the Note on Neutrality printed above. When Argentina broke relations with Germany in January 1944, it acquired the same status as most of the other American Republics.

[2] The dates in this column are based on the historical evidence of the military situation in Europe; Germany's declining military capabilities after 1942; geographic factors such as terrain, road and rail nets, and port facilities; military capabilities of the neutral countries; and the Allied ability to come to their assistance, as corroborated by the Chief Historian, U.S. Army Center of Military History. German military dominance peaked late in 1942 and declined rapidly thereafter. By the summer of 1943, after repeated Allied offensive operations on multiple fronts, Germany lacked the resources to initiate new military campaigns. German operations, however, did not always reflect a rational military strategy or Germany's formal military capabilities. It is difficult to judge at what point the continental neutrals began to discount the threat of German force majeure. They may have feared invasion after the date when the Allies believed such an action to be beyond German capability. One good indicator of when the neutrals perceived that the threat from Germany was receding is the date of their first significant concession to Allied demands, as indicated in the next column. Other indicators can be found in the assessments made by U.S. military planners during 1943 and 1944 of the status of the continental neutrals in the context of German military strength. Three of these assessments, dated August 7, 1943, November 18, 1943, and September 9, 1944, based on available intelligence and the interpretations of U.S. military experts, provided information and background used in preparing this part of the chart. They give a broad, convenient summary of what the U.S. leaders understood of the military situation in Europe. The first two assessments are printed in *Foreign Relations*, The Conferences at Cairo and Tehran, 1943, pp. 453-467 and 214-232, respectively; the third is ibid., The Conference at Quebec, 1944, pp. 237-244.

[3] By the fall of 1943, the Germans had suffered a major defeat at Kursk on the eastern front; North Africa, Sicily, Sardinia, and southern Italy were in Allied hands; and the Germans were rushing available reserves into the Italian peninsula and the Balkans to replace Italian troops, especially after the surrender of Italy in early September 1943. Given the terrain and road nets of northern Iberia and the Balkans, it was always exceedingly difficult for Germany to support a major effort against Spain, Portugal, or Turkey because of the lack of supply routes. Moreover, the Allies' ability to intervene in Iberia was far superior to the Germans' because of their greater resources and dominant naval position, of which both Spain and Portugal were aware. Spain and Turkey also had sizable land armies and could have resisted a German effort of up to a dozen infantry divisions.

[4] Until D-Day in June 1944, German troops in Norway could exert direct pressure on Sweden, and Germany still controlled the Baltic; moreover, German troops were in Finland until Finland sued for peace with the Allies in early September, after which the Germans retreated slowly into northern Norway, laying waste to Finnish territory. German capabilities in northern Europe declined after Normandy, but German troops remained in Norway until the end of the War. Sweden had one of the most capable armed forces of all the neutrals, which presumably gave it enough leverage to abrogate the transit agreement with Germany as early as August 1943, while still under military threat from German troops.

Other historians argue that any potential German threat to Sweden was clearly diminishing by August 1943. Swedish intelligence had access to German military and diplomatic communications to and from Norway through at least summer 1942 and had good knowledge of German intentions, capabilities, and limitations in Scandinavia. A German invasion of Sweden from Norway would have been difficult during the summer and impossible the rest of the year because of the climate, terrain, and lack of roads; the Swedish Navy in the Baltic was a solid deterrent to possible German naval action; and Sweden was well-informed about the German defeats on the Eastern front and the unraveling of the German-led coalition in the East.

[5] As noted in footnote 3 above, by the latter half of 1943, Germany was fully engaged elsewhere. Moreover, Allied military leaders concluded by the fall of 1943 that German forces were on the defensive in the Balkans and foresaw no German offensive action in the area in 1944 against Turkey. In November 1943 Turkish military leaders, unhappy with the level of military assistance extended or promised to Turkey, refused the Allies on the grounds that if it entered the War, Germany and Bulgaria might attack Turkey's territory in Europe and its coastal cities. By refusing the Allies' demands to enter the War (until December 1943 at Cairo), Turkey acknowledged that a German attack was unlikely as long as it remained a non-belligerent.

Other historical analyses would set Summer 1944 as the date when the Turkish Government considered that it could discount the threat of German military action. These analyses interpret Turkey's refusal to enter the War in November 1943 as evidence of a real fear that the still considerable Axis forces in the Balkans represented a threat to Istanbul that could not be countered by Turkish military action.

[6] During the War Switzerland, surrounded by Axis troops and dependent on imports for most of its food and fuel requirements, had been especially vulnerable. In September 1944, however, the Allies reached the borders of western Switzerland, and the failure of the German offensive in the Ardennes by the end of the year and German defeats elsewhere were well-known. Equally important, the Alpine terrain still controlled by the Germans around Switzerland made maneuvering particularly difficult.

[7] At the Cairo Conference in December 1943, President Roosevelt and Prime Minister Churchill met with Turkish President Inonu and asked Turkey to enter the War. Turkey was willing if the Allies would broadly re-equip the Turkish army and air force. When the Allies refused and cut off further arms shipments to Turkey, Soviet Marshal Stalin dismissed Turkey's entry as unnecessary. An alternate historical analysis argues that Turkey's break in diplomatic relations in August 1944 is the first initial significant concession to Allied demands (despite Turkish agreement to cease chromite exports to Germany in April).

[8] Switzerland agreed in January 1945 to receive the Allied Currie Mission to negotiate the establishment of Allied-Swiss economic relations; an agreement was signed on March 8, 1945. In April 1945, Switzerland held commercial discussions with Germany, giving assurances of its continuing concern with Germany's interests.

Neutral Countries' Supply of Germany's Major Resources

Chromite (used in hardening steel to make armor)			
German annual requirement 40,000-45,000 tons[1]			
	1942	**1943**	**1944**
What Turkey supplied (trade ended in April 1944)	None[2]	44,000-46,000 tons	20,000-26,000 tons
–Percentage of German requirement	0%	100+%	50-65%
Iron ore (used in making steel)			
German annual requirement 10-20 million tons[3]			
	1942	**1943**	**1944**
What Sweden supplied (trade ended in November 1944)	9-9.5 million tons	9-10 million tons	7 million tons
–Percentage of German requirement	45-90%	50-100%	35-70%
Wolfram (from which tungsten is derived, used in hardening steel to make machine tools, filaments, and armor)			
German annual requirement 3,200-3,500 tons[4]			
	1942	**1943**	**1944**
What Portugal supplied (trade ended in June 1944)	2,038-2,220 tons	2,000-2,100 tons	900 tons
–Percentage of German requirement	58-69%	57-66%	26-28%
What Spain supplied (trade limited in May 1944; ended in August)	1,000 tons	1,120-1,200 tons	580-587 tons
–Percentage of German requirement	29-31%	34-50%	17-18%

[1] Albert Speer, *Inside the Third Reich: Memoirs*, translated by Richard and Clara Winston (New York and Toronto, 1970), p. 316; "Ferro-Alloys and Their Effect on Steel in the German War Economy, 1943 and 1944," June 1944, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13; W.N. Medlicott, *The Economic Blockade* (London, 1959), vol. II, p. 656. The loss of the Balkans in early 1944 deprived Germany of 15-16 tons of chromite for that year, as well as easy access to Turkish chromite; thereafter, the supply of Turkish chromite became even more important.

[2] Britain, France, and the United States concluded agreements with Turkey to buy its entire production of chromite through 1942.

[3] "Ferro-Alloys and Their Effect on Steel in the German War Economy, 1943 and 1944," June 1944, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13; Medlicott, *The Economic Blockade*, vol. II, p. 658. Medlicott notes that in 1943, France supplied Germany with 7.9 million tons of iron ore, but in 1944 France and all other countries, except Sweden, supplied only 2 million tons. The high grade of Swedish iron ore made it especially important to Germany, and it was believed to be essential to Germany's armaments industry; Gerhard L. Weinberg, *A World at Arms: A Global History of World War II* (Cambridge, 1994), p. 73.

[4] "Raw Materials Position of Enemy Europe," February 14, 1944, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 2; Medlicott, *The Economic Blockade*, vol. II, p. 656; Herbert Feis, *The Spanish Story* (New York, 1948), pp. 219-220.

Allied Relations and Negotiations With Argentina

A. The Beginnings of Argentina's Neutrality

At the outset of World War II, in September 1939, Argentina announced a position of "prudent neutrality" toward the belligerents. Its action was based on several factors: freedom of action in its relations with European nations was the keystone of Argentina's foreign policy traditions; its neutrality during World War I had been domestically popular and made the Argentine economy prosper; it wanted to revitalize its economy after the disastrous impact of the Great Depression; and it saw itself as a counterweight in the south to the United States in the north. Although Argentina agreed at the Havana Conference in 1940 that an attack on any American state would be considered an act of aggression against all American states, it insisted that any action undertaken in response to an attack was a matter for each state's individual interpretation.

After the Japanese attack on Pearl Harbor and the U.S. entry into the War, Argentina had another chance to define its attitude toward hemispheric solidarity. It accepted the resolution of the Rio Conference of Foreign Ministers of the American Republics in January 1942 calling for the severance of commercial and financial relations with the Axis powers and the Final Act of the Inter-American Conference on Economic and Financial Controls held in Washington the following July, obligating the American Republics to end all commercial intercourse, direct or indirect, with the Axis.[1] In both cases, however, Argentina failed to conform. Argentine leaders evidently believed that Argentina would suffer economic distress and diminished power if it became involved in a destructive extra-hemispheric war.[2]

Argentine neutrality collided directly with U.S. objectives toward Latin America. Policy-makers in Washington, in exchange for renunciation of intervention in Latin America, expected the Latin American nations to join with the United States in transforming the Pan American system into a collective security organization that would regard an attack on one as an attack on all, and to coordinate a unified response. For U.S. policy-makers, the continuing dilemma in Argentina was how to compel an American state to change its position without violating the principle of non-intervention. Argentina's neutrality was much less disturbing to Britain. From early in the War, the

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[1] The principles of inter-American solidarity and cooperation against the Axis were worked out at the Second Meeting of the Foreign Ministers of the American Republics, held at Havana, July 21-30, 1940; the Third Meeting of the Foreign Ministers of the American Republics held in Rio de Janeiro, January 15-28, 1942; and the Inter-American Conference on Economic and Financial Controls meeting at Washington, June 30-July 10, 1942; see *Foreign Relations*, 1940, vol. V, pp. 180-256, and ibid., 1942, vol. V, pp. 6-47, 58-73, and 453-514

[2] "Outline of Inter-American Economic Activities and Their Official Agencies," October 30, 1942, National Archives and Records Administration, College Park, MD [hereafter cited as NARA], RG 169, Records of the Foreign Economic Administration, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared by the Division, Box 4; memorandum from Henry Morgenthau, Jr. to the Acting Secretary of State, November 2, 1943, NARA, RG 56, Records of the Department of the Treasury, Acc. 69A-7584, Legal Staff Records, Box 1.

British Government attempted to persuade the United States to distinguish between Argentina and the other American Republics, rather than treating the hemisphere as a unit. British willingness to tolerate Argentine neutrality was based on its dependence on Argentine meat shipments, which increased as the War went on.[3]

Nazi Germany supported Argentina's neutrality. German-Argentine affinities arose from several sources, including historic military ties, an extensive network of German-owned businesses, export-import firms and banks in Argentina, and over a quarter of a million Germans living there. Nazi activities began in Argentina in the early 1930s and continued throughout the wartime period, even after Argentina severed relations with Germany in early 1944. Although Nazi Germany's strategic motives in Argentina were unclear, its economic motives were clear. Germany desired to keep Argentina neutral for both commercial and financial advantages, and possibly as a destination for looted gold. After September 1939 German agents traveled freely in Argentina and distributed lavish bribes to ensure continued Argentine neutrality, and after early 1942 they sought to transform Argentina into the Third Reich's intelligence and covert warfare platform in the Western Hemisphere. Nazi activities in Argentina included smuggling of products useful to the war effort, such as platinum, industrial diamonds, and liver extract; subsidizing pro-Axis newspapers; cloaking of Nazi assets by German-owned firms; gathering commercial and military information about the Allies; and supporting pro-Axis Argentine military officers.[4]

B. U.S. and Allied Policies Toward Argentine Neutrality

During the War, all the American Republics except Argentina stood with the United States against the Axis, providing diplomatic, economic, and, in some cases, military assistance and cooperation. Secretary of State Cordell Hull took special pride in acknowledging the wartime efforts of the Latin American countries that provided the United States and its Allies with vital strategic materials and severed diplomatic and commercial relations with the Axis. The efforts included economic warfare cooperation with the United States in preventing supplies from reaching Germany and the other Axis powers, in complying with the U.S. "Proclaimed List," which prohibited dealings with firms working with the Axis powers, and in instituting necessary controls over financial transactions involving Germany and the other Axis nations. These nations also took steps to prevent clandestine trade with Germany in vital commodities such as industrial diamonds and platinum, to rid themselves of Axis agents and propaganda operations, and in some cases to cut communications with Germany and establish censorship procedures. Argentina undertook none of these cooperative wartime steps, despite U.S. efforts until late in the War.[5]

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[3] Telegram to London, December 30, 1942, NARA, RG 59, General Records of the Department of State, Decimal Files 1940-44, Box 2758.

[4] "Totalitarian Activities – Argentina Today," June 1943, NARA, RG 60, Records of the Department of Justice, Antitrust Division, Economic Warfare Section, Box 18; Ronald C. Newton, *The "Nazi Menace" in Argentina, 1931-1947* (California, 1992), pp. 26-28, 37-87.

[5] Cordell Hull, *The Memoirs of Cordell Hull*, vol. II (New York, 1948), pp. 1377-1426.

Until early 1944 no Argentine regime deviated in any fundamental way from the national policy of neutrality. Secretary Hull continued to believe that Argentine policies left the Americas unguarded on a vulnerable flank and that unless the country could be closed to Nazi subversion, espionage, and financial machinations, the Hemisphere's security remained in jeopardy. He also believed that the Argentine people favored the Allied cause and that they could be induced to prevail upon their government.[6] He adopted a policy of coercion toward Argentina, instituting numerous forms of diplomatic, public, and economic pressure (e.g., denying Lend-Lease aid and military assistance and instituting and tightening a system of export/import controls). On the issue of freezing all Argentine assets, however, he was reluctant to go as far as the Treasury Department desired. There were at least two considerations that acted as a brake on Hull's policy decisions: concern within the State Department that a more coercive policy might alienate other Latin American republics and raise the issue of intervention in an obtrusive way, and the fact that a more coercive policy hinged on full British cooperation, which was never forthcoming.

The determination of a succession of Argentine regimes to remain outside the inter-American effort against Germany was countered by continuous U.S. diplomatic and financial efforts to draw Argentina out of its neutrality. By the end of 1942, Argentina's stance made it a leading focus of the Treasury Department and the Board of Economic Warfare.[7] Of particular concern during the War years were the activities of German firms and banks in Argentina. Among the German firms operating in Argentina were Bayer, Anilinas Alemanas, and Toosca, all subsidiaries of the chemical and pharmaceutical giant, I.G. Farben; Staudt and Co., producer of agricultural products; and Siemens Schuckert, producer of electrical goods. German firms received aid from the Argentine Government in the form of easy credit and frequent contracts.[8] Moreover, Germany's need for cash in Argentina was easily met by German firms, which frequently turned over their profits to German espionage organizations in Argentina in return for equivalent credits in Reichsmarks in Germany.[9] The two German banks in Argentina, Banco

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[6] Ibid., vol. II, pp. 1377-1378, 1382-1383.

[7] "Outline of Inter-American Economic Activities and Their Official Agencies," October 30, 1942, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared by the Division, Box 4; memorandum from Morgenthau to the Acting Secretary of State, November 2, 1943, RG 56, Acc. 69A-7584, Legal Staff Records, Box 1. The Board of Economic Warfare, established in July 1941 as the Economic Defense Board (the name changed on December 17, 1941), oversaw the U.S. export and import program, advised the State Department on Lend-Lease negotiations, and coordinated the U.S. economic warfare program and facilities with those of the Allies. In July 1943 the Office of Economic Warfare assumed the functions and duties of the BEW, which was terminated. Executive Order 9380 of September 25, 1943, established the Foreign Economic Administration, which unified several wartime government economic activities, including those of the Office of Economic Warfare, into one agency in the Executive Office of the President.

[8] For a list of leading German companies in Argentina and their products, see Argentine Blue Book, *Consultation Among the American Republics With Respect to the Argentine Situation*, February 1946, pp. 57-58. A copy is in RG 59, Argentine Blue Book, 1946.

[9] Robert Murphy to the Secretary of State, Interrogation of Walter Schellenberg, November 24, 1945, ibid., Entry 1088, Miscellaneous Affidavits and Interrogation Reports 1945-1946, Box 23.

Aleman Transatlantico and Banco Germanico, like the German firms, were able to maintain communication with Germany directly or through other neutral countries throughout the War. Despite their access to German financial institutions and direct financial assistance to German firms, however, the two German banks in Argentina neither held looted gold nor concealed assets.[10]

The Treasury Department also suspected that early in the conflict Argentina made substantial amounts of foreign exchange available to the Axis countries, accepted the entry of large amounts of looted currency and securities into its markets, and allowed German firms to cloak their assets.[11] The Department of State had evidence in December 1942 that Germany was using Argentine financial institutions in extortion schemes aimed at Jews living in Europe. Selected Jews could have a sum of Argentine pesos transferred to one of the two German banks in Buenos Aires as ransom for permission to emigrate from Germany.[12] A report released in June 1943 by the Federal Bureau of Investigation described how Buenos Aires served as the Western Hemisphere outlet for U.S. bank notes that had been looted in occupied Europe and entered into commercial traffic in Switzerland.[13]

C. Argentina As a Center for Axis Smuggling

Unlike the European neutrals, Argentina did not have a particular, major resource or specific commodity that Germany needed to sustain its war machine. Rather, small amounts of a variety of scarce materials reached Germany clandestinely from Argentina during the War. The Board of Economic Warfare (BEW) noted in June 1943 that "Buenos Aires is one of the most important focal points for the shipping of contraband to Europe," and its blockade enforcement manual contained numerous confirmed and unverified reports of the smuggling of platinum, industrial diamonds, and other raw materials via Buenos Aires and various South American ports to Europe.[14] A confidential

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[10] "Special Investigation of Nazi Economic Activities in Argentina," January 1, 1946, and "German Banks and Miscellaneous Report of Investigation of Available Archives" (Enclosure No. 6 to "Special Investigation"), January 1, 1946, both ibid., Entry 1091, Memorandums on the Preparation of the Argentine Blue Book 1945-1948, Box 29.

[11] Memorandum for the President by Randolph Paul, October 25, 1943, NARA, RG 131, Records of the Office of Alien Property, Foreign Funds Control, Subject Files, Box 19.

[12] Edward Reed to the Secretary of State, Buenos Aires, December 14, 1942, RG 59, Decimal Files 1940-44, [Decimal] Box 5609. There is no evidence that Argentina remained associated with the Nazi extortion schemes after Secretary of State Hull expressed U.S. unhappiness to the Argentine Government in January 1943; see Hull to U.S. Embassy, Buenos Aires, January 5, 1943, ibid.

[13] "Totalitarian Activities–Argentina Today," June 1943, NARA, RG 60, Records of the Department of Justice, Antitrust Division Economic Warfare Section, Box 18.

[14] Board of Economic Warfare, "Blockade Enforcement Manual," June 1943, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 1. Additional evidence of smuggling via Argentina is in "History of Blockade Division, Enforcement Section," December 15, 1944, and "Blockade, Bargains and Bluff: Allied Economic Warfare in the European Neutrals," undated, both ibid.

The materials were often "camouflaged" among non-contraband commercial products shipped from Buenos Aires on Spanish ships to Spanish ports, where they were picked up by German agents. See intercepted diplomatic messages between Buenos Aires and Berlin, dated July 6, August 28, and October

study by the Foreign Economic Administration (FEA) in October 1943 showed that materials being smuggled from Argentina to the Axis included platinum, palladium, drugs and other chemicals, iron, steel, and steel wire, as well as U.S. currency.[15] A postwar official British study of the Allied economic blockade during World War II concluded that insulin, liver extract, industrial diamonds, incandescent wire, and skins and hides were also brought to Europe in Spanish or Portuguese ships via Argentina and other South American countries and then forwarded to Germany. Most of these smuggled materials were produced at the time by German firms in Argentina.[16]

Platinum smuggling illustrates the problem. Axis Europe produced virtually no platinum, which was used for electrical, chemical, and dental purposes. The BEW estimated Germany's annual platinum requirement at about 600 kilograms. Colombia produced about 6 percent of the world's total platinum production. The official U.S. buying price in Colombia in early 1943 was $1.13 a gram, but the black market price in Buenos Aires was $7 a gram, and it reached $11 a gram in the Iberian Peninsula. A portion of Colombian production was purchased illegally and smuggled to Argentina, where it was sold to German agents, shipped on Spanish ships to Spanish ports, and then transported to Axis-controlled territory by other German agents. The BEW estimated that 50 to 100 kilograms of platinum destined for German agents in Spain were smuggled out of Argentina during 1942.[17] Apparently, this flow did not diminish until late 1943. In the fall of that year, the British Navy intercepted a number of Spanish ships on the high seas sailing from Buenos Aires, escorted them to Gibraltar, and discovered they were carrying contraband platinum, liver extract, and other goods hidden in false bottoms of falsely manifested boxes. Seizures such as these led the German Foreign Office in Berlin, in consideration of neutral Spain, to advise its Chargé in Buenos Aires to discontinue temporarily the shipment of undeclared or falsely declared goods, and to instruct the

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21, 1942, in NARA, RG 457, Records of the National Security Agency/Central Security Service, Historic Cryptographic Collection, Diplomatic Message Translations, Boxes 377, 375, and 351, respectively; see also "Magic" Diplomatic Summaries, May 21 and December 25, 1943, ibid., "Magic" Diplomatic Summaries, 1942-1945, Boxes 5 and 8, respectively. These messages were intercepted and decrypted by U.S. authorities and available to U.S. leaders. For additional information on Spanish ships engaged in smuggling operations, see the chapter on Spain below.

[15] "Analysis of Smuggling Activities of 70 Suspected Firms and Individuals in United States, French North Africa, Neutral European Countries," NARA, RG 165, Records of the War Department General and Special Staffs, Regional File 1922-44 (Spain), Box 2924.

[16] W.N. Medlicott, *The Economic Blockade*, vol. II (London, 1959), pp. 438, 440; "Signed Statement by Irmgard Haube," January 30, 1946, RG 59, Argentine Blue Book, Entry 1088, Miscellaneous Affidavits and Interrogation Reports 1945-1946, Box 24; Affidavit, Walther Becker, February 5, 1946, ibid., Box 23.

[17] Board of Economic Warfare, "Blockade Enforcement Manual," June 1943, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 1.

German purchasing agent in Latin America, Buecker, to halt further purchases of these materials.[18]

Industrial diamond smuggling followed a similar pattern. Unlike platinum, however, valuable industrial diamonds, used for precision instruments and high-speed metal drills, were easily concealed on the persons or in the luggage of pro-Axis or cooperative ship captains and crew members. The BEW estimated that Germany's annual requirement was between 500,000 and 2 million carats, and that in 1939 it had a stockpile of 1 million carats. Germany had to make up any shortfall through smuggling. Most diamonds of industrial quality in the Western Hemisphere were produced in Brazil, where the black market price fluctuated between ten to twenty times the commercial price of $1 per carat. In November 1942 the U.S. Consul General in Sao Paulo estimated that as high as 30 percent of Brazilian diamond production was being smuggled to Buenos Aires for shipment on Spanish ships to Spain, where the black market price was thirty to sixty times the commercial price. The U.S. Embassy in Madrid reported an estimated flow of as high as 1,000 carats a week illegally moving into Spain for pickup by German agents. This flow apparently also diminished toward the end of 1943.[19]

In an overall assessment of smuggling activity written in December 1944, the Foreign Economic Administration concluded that German smuggling activity from South America had diminished by the winter of 1943-1944, and had virtually ceased by the end of 1944. The decline was reflected in the sharp drop in black market prices in Buenos Aires for materials such as platinum and industrial diamonds. The FEA attributed the virtual cessation of smuggling to a variety of reasons, including the rupture of relations between Argentina and Germany in January 1944 and more effective contraband control measures. It also acknowledged, however, the possibility that Germany had smuggled an ample supply of these materials during 1943 or had discovered better alternative sources.[20]

D. U.S. and Allied Wartime Policies Toward Argentina's Trade With Germany

Contraband control was only one aspect of the export/import control system worked out by the State Department and the Board of Economic Warfare between the fall of 1942 and the spring of 1943.[21] State and BEW agreed on broad economic policy objectives for Argentina: to control U.S. exports of critical materials to Argentina; obtain

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[18] This information was based on intercepted messages decrypted by U.S. authorities and available to U.S. leaders, "Magic" Diplomatic Summary, December 25, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 8. See also *New York Times*, November 10, 1943, p. 5, c 3.

[19] Board of Economic Warfare, "Blockade Enforcement Manual," June 1943, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 1; "A Country by Country Summary of Recent Developments in the Blockade Enforcement Program," September 1943, ibid., Box 5.

[20] "History of Blockade Division, Enforcement Section," December 15, 1944, ibid., Box 1.

[21] For a description of how the system evolved, see N.R. Danielian, "Background of the Argentine Economic Policy," August 27, 1943, ibid. See also "An Evaluation of United States Policy Toward Argentina," attached to a memorandum from Stone to McCamy, October 28, 1943, ibid.

maximum amounts of Argentine materials critical to the Allied war effort; permit Argentina to acquire sufficient goods and materials from the United States to make the latter possible; secure Argentine cooperation in preventing use of its territory as a base for Axis subversive activities; and prohibit use of Argentine financial, trade, and communication facilities by the Axis. The two agencies, however, had differing perceptions about implementation. BEW favored "a normal hard-headed trading approach" divorced from political objectives, while State sought to use economic pressures to achieve political objectives, doubting the efficacy of punitive measures that might entrench Argentina's position, stoke anti-Americanism in the Hemisphere, and undermine hemispheric solidarity on security matters. BEW was also concerned about Argentine economic retaliation that could damage the Allied war effort and have a deleterious long-term effect.[22] Correspondence between the two agencies concerning implementation appear to have ended by early 1944 after Argentina severed diplomatic relations with Germany. After Argentina declared war on the Axis in late March 1945, State informed the FEA on April 11 that, "In future allocation and licensing decisions Argentina should be treated on an equal basis with the other American Republics."[23]

As early as July 1942, President Franklin Roosevelt had imposed trade and financial controls on transactions by German citizens and businesses in the Western Hemisphere by authorizing the "Proclaimed List of Certain Blocked Nationals," which prohibited dealings with individuals and firms in the Americas whose activities were considered hostile.[24] Almost immediately after the United States entered the War, Treasury Secretary Henry Morgenthau, Jr. had proposed to freeze all assets of Argentina. In May 1942 Morgenthau presented evidence to President Roosevelt that numerous Argentine companies were cloaking German funds in the United States and that Argentina had recently sent over $1,000 to the United States in looted currency. The President, however, continued to follow the advice of Secretary of State Hull, who felt that a freeze on Argentine assets would do little to thwart that country's economic relations with the Axis but rather would hamper important trade between Argentina and the United States and its Allies, force Argentina closer to the Axis, and hurt America's Good Neighbor policy.[25]

After repeated requests from Treasury to impose a freeze on Argentine assets, the State Department agreed in October 1942 to limited, ad hoc blocking of selected Argentine accounts. Treasury quickly moved to block transactions with over 150

[22] BEW, "Preliminary Report of Committee on Argentine Policy," May 15, 1943, ibid. Memorandum for the Secretary's Diary, November 26, 1943, RG 56, Entry 352M - General Counsel, Box 48; Silver to Schmidt, June 20, 1947, ibid., Acc. 66A-155, Country Files, Box 33, Argentina. Regarding the difficulties that U.S. officials encountered in defining U.S. policy toward Argentina, see Glasser to Collado, July 30, 1945, RG 131, Foreign Funds Control, Subject Files, Box 386.

[23] Telegram 2802 to London, April 11, 1945, NARA, RG 84, Records of the Foreign Service Posts of the Department of State, Embassy London, General Records, 1945: 610.21-690, Box 312, Folder 631.

[24] Valley to Shick, December 5, 1944, RG 56, Entry 193A, Central Files of the Office of the Secretary of the Treasury 1951-1966, Box 127.

[25] "Argentina Memorandum (Preliminary Draft)," October 16, 1943, RG 131, Foreign Funds Control, Subject Files, Box 19.

individuals and firms in Argentina.[26] The State Department later explained that the ad hoc blocking program was a means of targeting entities that were not yet on the Proclaimed List but were believed to be engaging in financial, trade, or other operations on behalf of enemy interests. Ad hoc blocking was not intended to be a permanent status but a temporary designation before a business or person was either placed on the Proclaimed List or cleared.[27]

Following a year of ad hoc blocking, in October 1943 the Departments of State and Treasury prepared a joint memorandum for the President outlining their respective positions concerning U.S. policy toward Argentina. Treasury recommended that Argentina be added to the list of nations subject to general freezing controls, basing its position on the failure of ad hoc blocking to halt the availability of foreign exchange to the Axis or to stop German firms in Argentina from cloaking their assets to escape freezing controls. State continued to argue against imposing general freezing controls. In June 1943 the conservative Castillo government in Argentina had been overthrown by a military coup, and the State Department concluded that any stronger economic and financial constraints on Argentina would only strengthen the pro-Axis factions in the new Ramirez government. Weighing the respective arguments of the two agencies, President Roosevelt refused to authorize the full freeze of Argentine individuals and firms but wished the matter to be reviewed "every week or two."[28]

The possibility of taking sterner economic actions against Argentina was also undermined by differences between the United States and Britain, which had substantial investments in Argentina and maintained much more important commercial relationships with that country than did the United States. Wartime Britain became even more dependent on imports from Argentina, especially meat. Britain ostensibly supported U.S. efforts to overcome Argentina's neutrality and bring it into line with the general Western Hemisphere coordination against the Axis, but maintained reasonably cordial relations with Argentina and was unwilling to support a general embargo. Unlike the United States, Britain seemed content with Argentina's neutrality, which offered protection for meat shipments against German U-boat attacks.[29] Concerns about its food supply made Britain unwilling to act with the United States against the current Argentine military government. In August 1943 the British Ministry of Food concluded an agreement to purchase the entire exportable surplus of Argentine meat for two years, ending September

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[26] Ibid. For the dates of Treasury's lists of proposed blocked firms and individuals, see Dean Acheson to Henry Morgenthau, December 24, 1942, RG 56, Acc. 69A-7584, Legal Staff Records, Box 1.

[27] Secretary of the Treasury to the Secretary of State, November 2, 1942, ibid.

[28] Roosevelt to Stettinius, October 26, 1943, ibid. A detailed summary of discussions between State and Treasury in the last week of October is in Paul to Morgenthau, November 1, 1943, ibid. According to intercepted messages decrypted by U.S. authorities and available to U.S. leaders, Argentina, in order to strengthen its position vis-à-vis the United States and other countries, attempted to obtain warships and war materials from both Germany and Japan. ("Magic" Diplomatic Summaries, July 22 and October 28, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Boxes 6 and 7, respectively)

[29] Memorandum for the President by Randolph Paul, October 25, 1943, RG 131, Foreign Funds Control, Subject Files, Box 19; telegram to London, December 30, 1942, RG 59, Decimal Files 1940-44, Box 2758.

30, 1944, and continued to oppose any policy that might lead Argentina to retaliate by restricting foodstuffs to Britain.[30] It is also likely that the British Government viewed the pursuit by the United States of Pan-Americanism as a mean of extending U.S. influence in Latin America, and, in the case of Argentina in particular, to the detriment of British interests there. At Secretary Hull's request, President Roosevelt even sent a personal message to Prime Minister Churchill as part of the effort to distance Britain at least diplomatically from Argentina, but to no avail.[31]

In 1944 U.S. efforts to thwart German-Argentine commercial relations were given a new impetus by Argentine involvement in the December 1943 overthrow of the Bolivian Government by right-wing nationalist forces.[32] Armed with evidence that the Argentine military regime had sponsored the overthrow and was plotting similar coups in other South American countries, the United States took several measures to escalate pressure on Argentina to break relations with the Axis, including sending ships from the South Atlantic fleet to the vicinity of Buenos Aires, moving to freeze Argentine assets, and threatening to publish evidence of the Argentine Government's machinations against its neighbors and attempts to strike a secret arms deal with Germany.[33] Secretary Hull stated that he had previously been unwilling to recommend a general freeze on Argentina previously because Argentina "was just waiting for a pretext to incite some of the other countries in Latin America to set up pro-Axis governments."[34] Hull's decision for sanctions against Argentina came soon after receiving a message from Treasury Secretary Morgenthau requesting the Department of State to reconsider its position on Argentina. Morgenthau stated that the U.S. position from the perspective of economic warfare was becoming more and more "ludicrous."[35]

The persistent U.S. measures to pressure Argentina to break relations with the Axis, in conjunction with other developments such as the changing German military situation, had their intended effect. On January 24, 1944, as U.S. Ambassador Norman Armour informed the Argentine Foreign Minister of the proposed issuance of an amended Executive order freezing Argentine assets in the United States, the Foreign Minister told the Ambassador that Argentina was about to break relations with the Axis and requested

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[30] George Gazzara to Sims Carter, "Highlights on the Present Argentine Situation With Regard to the United States," September 14, 1944, RG 60, Antitrust Division, Economic Warfare Section, Box 17; Medlicott, *The Economic Blockade*, vol. II, p. 463.

[31] The U.S.-British exchanges over Argentine policy are described by Secretary Hull in his *Memoirs*, vol. II, pp. 1409-1419. Regarding British economic interests in Argentina and U.S.-British disagreements over wartime policy toward Argentina, see *Foreign Relations*, 1944, vol. VII, pp. 251-252, 288-290.

[32] For evidence of the German-Argentine-Bolivian link prior to and immediately following the overthrow, see three messages intercepted and decrypted by U.S. authorities and available to U.S. leaders, "Magic" Diplomatic Summaries, August 29, 1943, Box 7, and April 5 and 23, 1944, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 10.

[33] Michael J. Francis, *The Limits of Hegemony: United States Relations With Argentina and Chile During World War II* (Notre Dame, 1977), pp. 208-212; Robert A Potash, *The Army and Politics in Argentina, 1928-1945: From Yrigoyen to Peron* (Stanford, 1969), p. 231.

[34] Memorandum for the Files by J.W. Pehle, January 12, 1944, RG 56, Acc. 69-A7584, Box 1.

[35] Henry Morgenthau to Cordell Hull, January 8, 1944, ibid.

that the United States refrain from any measures that might appear coercive. Two days later the government of President Ramirez, citing evidence of a growing Nazi espionage ring in Argentina, announced it was severing formal diplomatic relations with the Axis powers.[36]

Despite the Argentine announcement of January 26, as early as February 12 the Department of State was "forced to the conclusion that the Argentine Government is very far from having actively initiated the sort of house cleaning which is essential if this Government and the other American Republics are to conclude that Argentina is sincerely on our side." The Department was concerned not only about Argentine commercial relations with Germany but about continuing German espionage and propaganda activities and Argentine reluctance to curb them.[37]

E. The Safehaven Investigation in Argentina

By 1944 the United States and its Allies were growing increasingly concerned that Germany was seeking to move assets to the neutrals, including Argentina, in an effort to lay the basis for a resurgent Nazi state after Hitler's inevitable military defeat. The Safehaven program aimed at identifying and thwarting these efforts by Germany. Strained U.S-Argentine relations hampered early investigations of German assets in Argentina. In late February 1944 Argentine President Ramirez delegated his powers to General Edelmiro Farrell. Colonel Juan D. Peron, a close associate of Farrell, soon became Vice President. The change in power came less than a month after Ramirez' January 26 announcement of the breaking of diplomatic relations with the Axis, leading the State Department to attribute Farrell's accession to extremist, pro-Axis forces within Argentina.[38]

The United States refused to recognize the Farrell government, recalled Ambassador Norman Armour from Buenos Aires in June, and put some pressure on the other American Republics to withhold recognition.[39] The State Department's Office of American Republic Affairs believed that U.S. actions risked serious damage to the Good

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[36] Franklin Roosevelt, Amendment of Executive Order No. 8389 of April 10, 1940, as amended, January 24, 1944, RG 131, Foreign Funds Control, Subject Files, Box 19; memorandum for the Secretary's Diary, November 26, 1943, RG 56, Entry 352-M, General Counsel, Box 48, Argentina; memorandum from Morgenthau to the Acting Secretary of State, November 2, 1943, ibid., Acc. 69A-7584, Legal Staff Records, Box 19; *Foreign Relations*, 1944, vol. VII, pp. 231-235. The freezing orders were signed by President Roosevelt on January 24, but were canceled in light of Argentina's assurances that it would break relations with the Axis; see John Morton Blum, *From the Morgenthau Diaries: Years of War, 1941-1945* (Boston, 1967), p. 202. The reasons behind Argentina's action, as explained by an unnamed Argentine official to German Chargé Meynen, are in an intercepted message decrypted by U.S. authorities and available to U.S. leaders, "Magic" Diplomatic Summary, February 5, 1944, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 9. The break also followed the British arrest of Oscar Hellmuth, a German-born Argentine, who was traveling to Europe to negotiate an arms deal with Germany; see Newton, *The "Nazi Menace" in Argentina, 1931-1947*, pp. 285-314.

[37] Telegram 266 to Buenos Aires, February 12, 1944, *Foreign Relations*, 1944, vol. VII, pp. 249-250.

[38] Ibid., pp. 300-301.

[39] Ibid., pp. 252-288, 315-317; Department of State *Bulletin*, July 30, 1944, pp. 107-111.

Neighbor policy and were akin to chasing a "phantom," and the British Government, regretting that the United States did not consult with it more closely before deciding to withhold recognition, was unhappy with the turn of events. Nevertheless, Hull insisted that Argentina must fulfill all the promises it made about de-Nazifying Argentina when it broke relations with Germany. Between August and November 1944, he introduced additional sanctions against Argentina (e.g., freezing over $400 million in Argentine gold stocks; ordering a deep cut in export licenses for chemicals, steel and lumber exports to Argentina; forbidding U.S. ships to touch Argentine ports after October 1).[40]

In mid-September, the Farrell government responded by announcing Argentina's withdrawal from the Montevideo Committee for the political defense of the continent, formed at the Rio Conference in January 1942.[41] The Argentine Central Bank thereafter provided little help to U.S. investigators in locating German assets. The record of the October 1944 Proclaimed List Meeting went so far as to state: "It is extremely doubtful whether we will discover in Argentina any extensive evidence of concealed enemy assets."[42]

Between August 16 and October 10, 1944, Samuel Klaus, an official of the Foreign Economic Administration, led a group of FEA, State Department, and Treasury Department officials to London, Stockholm, Lisbon, and Madrid to assess the possibilities and problems in perfecting a "Safehaven" program to uncover German external assets in the neutral nations. In September 1944 the Klaus mission looked into the possibility that Spanish banks were assisting the movement of looted monetary gold to Argentina.[43] Klaus' report on his mission concluded that Spain's financial organization made it possible for Germans to carry out transactions and transfers from Spain to Argentina as well as to Tangier and Portugal.[44] By January 1945 evidence against Argentina provided by the Klaus mission and other government investigations, combined with Argentina's location in the Western Hemisphere and influence on hemispheric security, led the FEA to declare it in some respects "the most critical Safehaven country."[45]

Secretary Hull's resignation in November 1944 and his replacement by Edward Stettinius brought about a change in U.S. wartime policy toward Argentina. Under the new regime, the State Department's hard line began to change. It was now perceived as

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[40] *Foreign Relations*, 1944, vol. VII, pp. 324-327, 338-340.

[41] George Gazzera to Sims Carter, "Highlights of the Present Argentine Situation With Regard to the United States," September 14, 1944, RG 60, Antitrust Division, Economic Warfare Division, Box 17.

[42] Memorandum for the Files on the Proclaimed List Nominating Committee Meeting of October 23, 1944, RG 131, Foreign Funds Control, Subject Files, Foreign Funds Control General Correspondence 1942-1960, Box 382; "Report of the Activities of the Foreign Funds Control for the Month of September 1944," RG 56, Entry 352M - General Counsel, Box 53; Samuel Gilbert to Francis H. Russell, October 16, 1944, RG 131, Foreign Funds Control, Subject Files, Box 382.

[43] Despatch from Madrid, September 30, 1944, RG 59, Decimal Files 1940-44, 800.515/9-3044.

[44] Memorandum from Samuel Klaus to Currie, Coe, and Cox on the Safehaven Investigation in Europe, August-October 1944, Franklin D. Roosevelt Library.

[45] Memorandum from Samuel Klaus to Oscar Cox, January 27, 1945, RG 169, Office of the Administrator, Historical Files of the Division of Economic Warfare (DEW), Latin America.

harmful to prospects for a viable United Nations organization and was overtaken by planning for the postwar period. Nelson Rockefeller, who also favored a more moderate approach to Argentina, based on persuasion rather than pressure, assumed the office of Assistant Secretary of State for American Republics Affairs. On its part, the Farrell government, convinced of Nazi Germany's inevitable defeat and the evaporation of any dream it might have had of incorporation into a new German economic sphere, viewed the new State Department team as offering an opportunity to improve relations. The British were relieved because Hull's attempt at economic warfare against Argentina appeared to them suspiciously like economic warfare against Britain itself.[46]

In light of the new State Department policy, State rejected requests to expand the Safehaven investigation in Argentina. On February 7, 1945, Treasury Secretary Morgenthau suggested to Acting Secretary of State Joseph C. Grew that a special Treasury representative be sent to Argentina in order to uncover and control Nazi external assets in Argentina, a project "still in its formative stages." Morgenthau noted that "more recent reports indicate clearly that Argentina is not only a likely refuge for Nazi criminals but also has been and still is the focal point of Nazi financial and economic activity in this hemisphere." On February 15 Grew rejected Morgenthau's suggestion, citing "political considerations" and the fact that State already had seven officials, in addition to one detailed by the FEA, working in Buenos Aires.[47]

Confusion over the extent of the Argentine investigation stemmed from the exclusion of Latin American countries from Safehaven negotiations and decrees. At the Inter-American Conference on War and Peace held in Mexico City between February 21 and March 8, 1945 (known as the Chapultepec Conference), the American Republics drafted a resolution in support of Bretton Woods Resolution VI, which called on neutrals to take measures to prevent disposition or transfer of assets in enemy-occupied countries, and the other Allied statements on looted gold and German external assets. The resolution, known as the Act of Chapultepec, reflected the goal of Treasury Department officials to apply Safehaven principles to the American Republics. The Act of Chapultepec, however, did not grant control of Nazi assets in Latin American countries to multinational governing bodies, but recognized the right of each of the American Republics, including the United States, to German property within its own respective jurisdiction.[48]

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[46] For a contemporary account of the British attitude, see "Britain and Argentina," *The Economist*, Vol. 147 (August 5, 1944), pp. 174-175.

[47] Letter from Rubin to Moscovitz, February 7, 1945, RG 131, Foreign Funds Control, Subject Files, Box 389; Grew to Morgenthau, February 15, 1945, RG 56, Acc. 66A-155, Box 34.

[48] I. M. to Rella Schwartz, March 3, 1945, RG 131, Foreign Funds Control, Subject Files, Box 388; Samuel Klaus to Oscar Cox, RG 169, Office of the Administrator, Box 991. For perspective on the working implications of the Act of Chapultepec, see memorandum prepared in the Division of Economic Security Controls, July 12, 1945, RG 56, Acc. 66A-155, Country Files, Box 34. The text of the Act of Chapultepec is in 60 Stat. 1831; extracts are printed in *A Decade of American Foreign Policy, 1941-1949: Basic Documents*, pp. 221-226.

Because of its ongoing pro-Axis activities and isolation from the rest of the American Republics after Farrell's accession to power, Argentina was excluded from the Mexico City conference. Adherence to the Act of Chapultepec subsequently became the prerequisite for its readmission to the Western Hemisphere's family of nations. By late March 1945 Argentina's leaders perceived the increasing isolation of their country.[49] The Farrell government declared war on the Axis on March 27 (little more than a month before the end of the War against Germany) in Decree No. 6.945 and simultaneously agreed to the provisions of the Act of Chapultepec. Decree No. 7.032, March 31, established the treatment to be accorded to firms trading or maintaining relations with enemy nations. The decree provided for a committee to be in charge of the control, liquidation, vesting, and forced sale of all Axis commercial and industrial firms and the assets of the firms' owners. These assets were to be held to pay possible war damages.[50] Farrell's announcement and the governmental decrees instantly improved Argentina's relations with the United States, as evidenced by the State Department's decision to support Argentina's bid to be included in the San Francisco meeting to organize the United Nations and to re-establish relations with the Argentine Government.[51]

The Treasury Department began outlining its vision of a Safehaven program for Argentina soon after Farrell's announcement. Because Argentina's program for eliminating German external assets was self-administered (as provided in the Act of Chapultepec), the Treasury plan was essentially a call for action by the Argentine Government. Treasury urged the government to address the cloaking of German assets in Argentine firms, the transfer of enemy assets through neutral countries to Argentina, and the holding of securities, gold, and other assets by enemy persons or firms in Argentina. The Treasury plan also called for the Argentine Government to initiate controls to prevent the importation of property that may have been looted. The role Treasury envisioned for the United States in the Argentine Safehaven program included assistance in drafting freezing control legislation and decrees, developing import controls to prevent Axis loot

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[49] In October 1944 Argentina had made a request to the Pan American Union for a meeting of Foreign Ministers to consider its international position, which led to the Chapultepec Conference; see *Foreign Relations*, 1944, vol. VII, pp. 27-86.

[50] See ibid., 1945, vol. IX, pp. 366-375, 451-454. In Resolution LIX of the Chapultepec Conference, the delegates expressed regret that Argentina had not found it possible to take steps that would permit its participation in the conference, recognized that Argentina was an integral part of the Union of American Republics, and hoped that Argentina might adhere to the conference declarations; see ibid., p. 370, footnote 18.

[51] On April 28, 1945, following strong appeals from the Latin American nations and a compromise among the United States, Britain, and the Soviet Union, the plenary session of the UN Conference of International of International Organization (UNCIO), meeting in San Francisco, voted to seat Argentina. President Peron formally submitted the Act of Chapultepec and the UN Charter to the Argentine legislature on June 26, 1945, which ratified both shortly thereafter. Regarding the compromise, see ibid., 1945, vol. I, pp. 328-329, 396-398, 411-418, 483-488, 500-504, 531-532. For a secondary account, see Randall B. Woods, *The Roosevelt Foreign-Policy Establishment and the "Good Neighbor": The United States and Argentina, 1941-1945* (Lawrence, 1979), pp. 190-202. Spruille Braden was appointed U.S. Ambassador to Argentina on May 8, 1945.

from entering the country, and beginning an effort to train personnel to uncover cloaked assets.[52]

The Financial Controls Section of the U.S. Embassy in Buenos Aires first handled the Argentine Safehaven project. In its first months the Argentine Replacement Program (i.e., the elimination of Axis firms by liquidation, expropriation, and forced sale) was behind that of most other Latin American countries. For example, the two German banks in Argentina were still in operation in June 1945 due to lax implementation of liquidation measures by the Central Bank.[53] In August 1945 the Safehaven program gained its own desk in the U.S. Embassy and began working directly with the Argentine Replacement Program and its governing body, Junta de Vigilancia (Enemy Property Board).[54]

The Treasury Department was not satisfied with the initial progress of the Argentine Replacement Program and did not feel that Argentina deserved the same treatment as other Latin American countries. Instead, Treasury favored treating Argentina the same as the European neutral countries and placing its German assets under the control of the Allied Control Council (ACC). At the least, Treasury officials wanted the ACC to assume oversight of the Argentine Replacement Program. Assets that the Argentine Government had not properly expropriated and liquidated by a determined date would be automatically claimed by the ACC.[55] Although Treasury found support for its plan in the Embassy in Buenos Aires, the State Department determined that attaining ACC vesting for Argentina was improbable without consultation and approval of other Latin American countries.[56]

F. The Argentine Blue Book

After the War the United States sought to explain its wartime policies toward Argentina and lay a foundation for a postwar solidarity among the American Republics that would continue to exclude Argentina. At the end of 1945 the Department of State began to prepare the so-called "Blue Book," which would demonstrate to the other American Republics that Argentina was a fascist government and deserved not to be included in a mutual defense pact scheduled to be signed in February 1946. The State Department therefore began to collate information on the wartime Argentine-German relationship throughout all sectors of the U.S. Government. Believing that Argentina was

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[52] "Memorandum re Argentine Safehaven Program," May 5, 1945, RG 131, Foreign Funds Control, Subject Files, Box 20.

[53] "Report of the Activities of the Foreign Funds Control for the Month of June 1945," RG 56, Acc. 66A-155, Division of Monetary Research Monthly Reports to the Secretary, Box 67.

[54] "Review of Economic Warfare Activities in Argentina," May 22, 1946, RG 84, Embassy Buenos Aires, Confidential File 1946: 851, Box 87.

[55] "Report of the Activities of the Foreign Funds Control for the Month of July 1945," RG 56, Acc. 66A-155, Division of Monetary Research Monthly Reports to the Secretary, Box 67. See also Glasser to Collado, July 30, 1945, and Coe to Collado, August 30, 1945, both in RG 131, Foreign Funds Control, Subject Files, Box 386.

[56] *Foreign Relations*, 1945, vol. IX, p. 486. For the State Department's position, see also "Argentine Replacement Program," March 11, 1946, RG 131, Foreign Funds Control, Subject Files, Box 386.

an especially fertile ground for the seeds of a successor Nazi regime and a possible third world war, Secretary of State James F. Byrnes wrote to the Embassy in Buenos Aires: "Prep Arg case is regarded as most urgent and impt undertaking confronting this Govt in Hemisphere today."[57]

Interrogations during the preparation of the Argentine Blue Book of several Nazi officials and Foreign Service personnel who had handled Argentine affairs failed to substantiate rumors that Nazi leaders had concealed looted gold or other assets in Argentina.[58] Hermann Goering was the top-ranking Nazi official alive in late 1945 and a prime target for the Allied external asset investigation. An FEA Preliminary Report on German external assets presented possible evidence that Goering had millions invested in Argentina in paintings and sculptures; similar stories circulated in the American popular media. Exhaustive interrogation of Goering and his associates and family, however, found no evidence that he had a direct or indirect interest in any asset in Argentina. A revised report by the FEA concluded that Goering had not concealed assets abroad.[59]

The Argentine Blue Book was delivered to the Latin American countries on February 11, 1946. Its focus was not specifically on Argentina's conduct during the War but on its current potential to become a base for a Nazi resurgence. The Blue Book confirmed that the Argentine Government asserted no control over German firms until its declaration of war against the Axis in March 1945. Although subsequent decrees stipulated that Argentina would place Axis-controlled firms under its control and possession, the government delayed taking action for so long that the managers of these firms had ample time to distribute or dissipate their assets.[60]

The Blue Book's other important revelation was that Nazi Germany transmitted large sums of money to its Embassy in Argentina without any serious obstacles.[61] A later Safehaven investigation determined that between 1939 and January 1944, the Embassy received a total of 13.9 million pesos ($4.1 million) from Berlin. Approximately 65 percent of that sum represented a fixed monthly expense of 130,000 Argentine pesos ($39,000), while 5 percent was earmarked for the upkeep of prisoners from the *Graf Spee*. The remaining 4 million pesos ($1.2 million) was deemed potential Safehaven capital, but it was also likely that the money had been used for German espionage activities.

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[57] Ibid., Box 20; Secretary of State to the Embassy, Buenos Aires, December 7, 1945, RG 59, Argentine Blue Book, Entry 1086, Telegrams from U.S. Embassies 1945-1946, Box 16.

[58] Reports of Interrogations, ibid., Entry 1088, Boxes 23, 24, 26.

[59] "Report on External Assets of Hermann Goering, late 1945, RG 56, Acc. 56-75-101, Legal Staff Records, General Subject Files, Box 238. Stanley Ross's "Nazi Nest Eggs in Argentina" (*Collier's*, April 21, 1945) claimed that Hermann Goering had cached a total of $25 million in Argentina. Treasury officials took note of the article but found its generalities and rumors of little value to the Safehaven program; Feig to Schwartz, April 27, 1945, RG 131, Foreign Funds Control, Subject Files, Box 19. The rumors that Goering hid a treasure in Argentina have persisted to the present. One author has claimed that Goering likely hid looted assets in Argentina; see Tom Bower, *Nazi Gold* (New York, 1997), p. 319. No search for evidence that Goering hid looted assets in Argentina was undertaken in connection with the preparation of this report.

[60] Argentine Blue Book, pp. 57-58, RG 59, Argentine Blue Book, Entry 1086, Box 16.

[61] Ibid., pp. 50-52.

These activities included intervening in Argentine elections, subsidizing press and propaganda, and purchasing strategic materials for the Nazi war effort.[62]

The release of the Blue Book during the Argentine presidential election caused a stir as reports surfaced that Peron was planning a smear campaign against U.S. officials. Acting Ambassador John Cabot had argued against the Book's release, fearing its unpredictable impact on U.S.-Argentine relations.[63] Acting Ambassador Cabot referred to the release as a "bomb." Both Secretary Byrnes and Ambassador Braden were concerned about what they perceived as Peron's links to the Nazis and they regarded him as a serious obstacle to the effective de-Nazification of Argentina. To Braden, Peron was "a typical Fascist," who had facilitated Nazi penetration of Argentina during his tenure as Minister of War and then Vice President under Farrell. When the old-line generals in Argentina's military establishment removed Peron from office and had him arrested in October 1945, massive popular demonstrations led to his release.[64] Under Secretary of State Dean Acheson was convinced that the Blue Book helped to sway the election in Peron's favor.[65]

The release of the Blue Book did succeed, however, in fostering increased cooperation in the Argentine Replacement Program, and the working relationship between the Enemy Property Board and Safehaven investigators improved in early 1946. In addition to the free and mutual sharing of information, the U.S. Embassy and the Board prevented additional dissipation of assets of German firms.[66]

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[62] Gutwirth to Schmidt, "Supplementary Report to Review of Economic Warfare Activities in Argentina," July 3, 1947, RG 131, Foreign Funds Control, Subject Files, Box 21. The *Graf Spee* was a German pocket battleship scuttled near Montevideo in late 1939 after a battle with the British Navy. Most of the crew fled to Argentina, where they were interned with Germany providing payment for their support. For information on the German program for subsidizing the Argentine press, see the message intercepted and decrypted by U.S. authorities and available to U.S. leaders, "Magic" Diplomatic Summary, May 24, 1953, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 5.

Apparently, converted gold was also used to finance similar activities. In November 1943, for example, the German Foreign Office advised its Chargé in Buenos Aires, Meynen, that Foreign Minister von Ribbentrop had decided to send him an amount of gold, most of it in gold bars, to finance his efforts to procure information. When asked how much gold he thought he might use over the period of a year, the Chargé replied that he would need the equivalent of 300,000 pesos ($75,000 in 1943) at the outset. He noted that the shipment and use of gold were under strict surveillance, that it would have to be converted into pesos immediately, and he queried, under the circumstances, how the Foreign Office intended to send the gold. Whether this particular gold was ever sent to Argentina could not be determined from the available records. ("Magic" Diplomatic Summary, December 13, 1943, ibid., Box 8)

[63] *Foreign Relations*, 1946, vol. XI, pp. 201-202.

[64] Ibid., pp. 190-193, 233.

[65] Dean Acheson, *Present at the Creation: My Years in the State Department* (Norton, 1969), pp. 187-190. Peron circulated a response of his own to the Blue Book, which he called the "Blue and White Book" (after Argentina's colors) and managed to transform the election into a choice between himself and Braden. He won a resounding victory in an election regarded as fair and honest.

[66] Cabot to the Secretary of State, March 8, 1946, RG 59, Argentine Blue Book, Entry 1086, Telegrams from U.S. Embassies 1945-1946, Box 17; Howard H. Tewksbury, "Fifth Report on Safehaven," April 10, 1946, RG 84, Embassy Buenos Aires, Confidential File 1946: 851.1-879.6, Box 95.

In March 1946 the Treasury Department determined that, "in light of the turn which Argentine developments have taken," it would accept the State Department's position, argued since June 1945, that the United States would delete Argentine firms from the Proclaimed List once the Argentine Government had nationalized them. The only condition was that the government sell the firms to "satisfactory purchasers." The Treasury Department had previously wanted the ACC to vest all firms before removing them from the Proclaimed List because "that would permit direct supervision by the Allies of the disposition of German firms and assure that such disposition would be satisfactory to us." But now Treasury acquiesced to State's position that all replacement programs in Latin American countries should be treated the same, as called for in the Safehaven provisions of the Act of Chapultepec.[67]

G. The Findings of the Safehaven Investigation in Argentina

After release of the Blue Book and the onset of more amicable relations with the Enemy Property Board, U.S. policy toward Argentina shifted significantly. George Messersmith, appointed Ambassador to Argentina in April 1946, was the major instrument in this shift. In a series of top secret despatches and letters to Secretary of State Byrnes, Messersmith urged that the United States place its relationship with Argentina on a "completely friendly, collaborative, and constructive basis" by the end of 1946.[68] The policy-makers in Washington generally came to agree with Messersmith's position, especially as the onset of the Cold War renewed U.S. desire for hemispheric alignment.

On May 15, 1946, the Treasury Department recommended that the three-person team of Treasury Safehaven investigators in Buenos Aires be instructed to complete their investigations and return.[69] The following week the Treasury representatives in Buenos Aires submitted their final Safehaven reports. By this time, all the important German concerns in Argentina had become subject to the Argentine replacement program. One report stated that, as a measure of the difficulty of fully eliminating Axis business enterprises, filing required Safehaven census reports, and identifying concealed assets disclosed by such reports, all the resources of the police and the Enemy Property Board would be required. Accordingly, the Safehaven team looked hopefully but skeptically on claims by the incoming Peron government that it would extirpate any Nazi presence in Argentina.[70]

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[67] "Argentine Replacement Program," March 11, 1946, RG 131, Foreign Funds Control, Subject Files, Box 386. The Treasury decision to accede to the State Department position is recorded in an initialed, handwritten note at the end of the document.

[68] Messersmith to the Secretary of State, July 26, 1946, RG 84, Embassy Buenos Aires, Top Secret File 1944-1949, Box 1; Messersmith to Byrnes, October 30, 1946, ibid. See also Airgram from Buenos Aires, February 15, 1947, RG 59, Decimal Files 1945-49, 800.515/2-1447.

[69] Schwartz to Schmidt, May 15, 1946, RG 131, Foreign Funds Control, Subject Files, Box 388; "Argentine Reports by Treasury Group in Buenos Aires," July 9, 1946, ibid., Box 21.

[70] "Review of Economic Warfare Activities in Argentina," May 22, 1946, RG 84, Embassy Buenos Aires, Confidential File 1946: 851, Box 87.

On May 22, 1946, the Safehaven investigation estimated that the total value of German assets for possible vesting was about 680 million Argentine pesos ($200 million), the vast majority of which came from firms already under the control of the Enemy Property Board.[71] As part of the total, 66 million pesos ($19.7 million) were uncovered at the two German banks in Argentina. The liquidation of Germany's six insurance companies provided an additional 25 million pesos ($7.4 million).[72] Assets found by the Safehaven team generally consisted of bank balances, currency, obligations, merchandise, and real estate. The team concluded that, contrary to numerous rumors, Argentina was not a German safehaven for looted gold or assets. No caches of gems or art treasures looted by the Germans had been officially uncovered in Argentina. Moreover, records obtained by the U.S. Embassy did not reveal that Argentina had acquired any gold from Axis sources.[73]

The Enemy Property Board at one time stated that the proceeds of Argentina's replacement effort would be deposited in specially blocked accounts intended to reimburse the losses incurred by the United Nations during the War.[74] But no negotiations regarding the distribution of the proceeds of liquidated German assets were undertaken. On February 15, 1947, Ambassador Messersmith notified the Secretary of State that all identified enemy assets in Argentina were now the property of the Argentine Government and that further investigation of enemy assets would be conducted locally and by the Office of the Military Government of Germany (OMGUS). The Embassy knew of no German assets at the time that required further explanation.[75]

Findings by the Argentine Safehaven investigation do not rule out the possibility that looted assets reached Argentina. Among other problems, the investigation began relatively late, and there was no attempt by Argentine authorities to recover missing documents. By the time investigators gained access to the records of German firms, relevant files only covered the period up to 1941 and, in other cases, 1942.[76] As reported in the Blue Book, early investigations also found that there had been systematic attempts to distribute, or dissipate, assets of the firms by increasing employee salaries and bonuses. Investigators could not determine whether various schemes represented deliberate attempts to conceal enemy assets or simply were attempts by managers to turn

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[71] "Review of Economic Warfare Activities in Argentina," May 22, 1946, ibid.

[72] "Argentine Reports by Treasury Group in Buenos Aires," July 9, 1946, RG 131, Foreign Funds Control, Subject Files, Box 21.

[73] "Review of Economic Warfare Activities in Argentina," May 22, 1946, RG 84, Embassy Buenos Aires, Confidential File 1946: 851, Box 87.

[74] Tewksbury to Secretary of State, "Second monthly report on Safehaven," November 28, 1945, RG 131, Foreign Funds Control, Subject Files, Box 385.

[75] Airgram from Buenos Aires, February 15, 1947, RG 59, Decimal Files 1945-49, 800.515/2-1447.

[76] "Special Investigation of Nazi Economic Activities in Argentina," January 1, 1946, ibid., Argentine Blue Book, Entry 1091, Memorandums on the Preparation of the Argentine Blue Book 1945-1946, Box 29.

quick profits.[77] Finally, the Safehaven investigation failed to review the records of the Argentine Central Bank.[78] The fact that looted gold was not discovered in Argentina's German banks still leaves open the possibility that it was concealed in other Argentine financial institutions. The Argentine Historical Commission, established in 1997 by President Menem, may have access to archival materials that can shed light on the extent of looted Nazi assets in Argentina during and after the War.

H. Argentine Gold Transactions and the Question of Looted Gold

The postwar Argentine Safehaven investigation also failed to explore adequately Argentina's financial dealings with Switzerland as a possible avenue for looted gold and German assets. During the War, the United States became aware of various financial transactions between Argentina and Switzerland involving gold. In April 1942 the U.S. Consulate in Switzerland reported that an unknown Argentine official was preparing to carry U.S. currency and securities, which had likely been stolen by the Germans in Europe, by diplomatic pouch and market them in Argentina. The proceeds of the currency and securities were to be remitted to Switzerland at the regular rate of exchange.[79] British secret cables obtained in July 1944 revealed that Argentina and Switzerland shared an extensive commercial relationship, which often included payments for exports in gold. One cable showed that at one time during the War, Credit Suisse, Zurich offered to buy gold from several South American countries deliverable to Buenos Aires.[80] By January 1945 the State and Treasury Departments had found conclusive evidence of extensive transactions involving the transfer of Argentine pesos, German Reichsmarks, and Swiss francs from Argentina to Switzerland.[81]

Other exchanges of gold between the two countries were connected to the repayment of a Swiss loan to Argentina negotiated in 1938. The U.S. Embassy in Buenos Aires informed Washington in April 1944 that the Argentine Central Bank planned to

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[77] "Special Investigation of Nazi Economic Activities in Argentina," January 1, 1946, ibid.; Argentine Blue Book, pp. 57-58, ibid., Entry 1086, Box 16. See also Howard Tewksbury to the Secretary of State, February 9, 1946, ibid., Entry 1091, Memorandums on the Preparation of the Argentine Blue Book 1945-1946, Box 10.

[78] Argentina provided Argentine Central Bank wartime gold records to the Los Angeles-based Simon Wiesenthal Center in November 1996. An examination of the records by the Federal Reserve Board and the Office of Special Investigations of the Department of Justice, with the assistance of the Federal Reserve Board, revealed that they contain no evidence that any gold was acquired by the Argentine Central Bank from Europe between August 1942 and the end of the war, but that they also contain no information about the origin of any gold the Bank received prior to August 1942.

[79] Paul Squire to Leland Harrison, April 1, 1942, RG 84, Legation Bern, Confidential File 1942: 840-892.43, Box 7.

[80] Behuneik to Gilbert, July 22, 1944, RG 131, Foreign Funds Control, Subject Files, Box 386.

[81] "Memorandum: Evidence of Direct Financial Intercourse between Argentina and Enemy or Enemy-Occupied Territory," RG 131, Foreign Funds Control, Subject Files, Box 19. Evidence in the same document also suggests that more limited monetary transactions took place between the Argentine Central Bank and financial institutions in Germany, including the Reichsbank.

ship six tons of gold to Zurich through Lisbon.[82] By September 1944 the Treasury Department was tracking all gold transactions between Switzerland and Argentina connected to the loan.[83]

In may 1947 a proposed $170 million gold shipment from Argentina to its account with the Federal Reserve Bank in New York raised the issue of Argentina's past gold dealings. Argentina had delayed adhering to the February 1944 Gold Declaration until March 1945 when it agreed to the provisions of the Act of Chapultepec, leading Treasury and State Department officials to suspect that the pro-Axis Farrell–Peron government might have acquired looted gold from either Germany or the European neutral countries during the one-year period.[84] In December 1946 the Treasury Department had made the following statement concerning Argentina's status under the Gold Declaration:

> "Despite numerous rumors no definite information has been attained showing the acquisition of gold from the Axis by Argentina. In view of present diplomatic relations with Argentina, it cannot be expected that they will be asked to make their records available to us. Accordingly, no attempt is likely to be made to obtain a Safehaven settlement with Argentina. The Gold Declaration should continue to be applicable to Argentina until the Declaration is finally revoked."[85]

The State Department approved Argentina's gold shipment despite uncertainty about the origins of its gold supply. Approval came after the U.S. Government discovered that Argentina had previously moved $232 million in gold with U.S. Assay Office markings from the United States to Argentina in 1946, a move that was clearly within wartime Allied gold sales policies. State acknowledged that larger questions remained about Argentina's gold supply, but that the United States would only approach Argentina if convincing evidence demonstrated that it had acquired looted gold.[86]

The State Department's actions reflected a desire to protect recently improved U.S.-Argentine relations. The United States had come by this time to recognize Argentina as an ally against Communism.[87] President Truman and Argentine Ambassador Ivanissevich issued a joint announcement on June 3, 1947, that their two countries would renew consultations with other Latin American countries about creating

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[82] Joseph J. O'Connell, Jr. to Secretary Morgenthau, April 20, 1944, RG 56, Acc. 66A-155, Country Files, Box 33; Armour to the Secretary of State, April 5, 1944, RG 84, Embassy Buenos Aires, Confidential File 1944: 850-851, Box 52; "Excerpt from Imperial Censorship (Trinidad) Report," RG 56, Acc. 66A-155, Country Files, Box 33.

[83] Jerome Sachs to Rella Schwartz, September 9, 1944, ibid.

[84] "Review of the Status of the Gold Declaration," December 12, 1946, ibid., Acc. 66A-1039, Miscellaneous Committee Records, Box 62.

[85] "Review of the Status of the Gold Declaration," December 12, 1946, ibid.

[86] Silver to Schmidt, June 20, 1947, ibid., Acc. 66A-155, Country Files, Box 33, Argentina.

[87] *Foreign Relations*, 1947, vol. VIII, pp. 208-209.

a treaty of mutual assistance.[88] Subsequently, in early September, Argentina joined the United States and other American Republics in agreeing to the Inter-American Treaty for Reciprocal Assistance, the Rio Pact, for mutual defense against aggression.[89]

I. U.S. Purchases of Argentine Gold

The onset of more cooperative U.S.-Argentine relations did not resolve the unanswered questions about Argentina's gold reserves and purchases. In October 1947 the Treasury Department requested permission from the State Department for the Embassy in Buenos Aires to approach the Argentine Government about looted gold. The Federal Reserve had informed Treasury that Argentina had recently made shipments of $320 million in gold to New York for deposit into its account, and that the United States had already purchased $232 million of the gold, all of which was U.S. Government assay gold and therefore not subject to wartime Allied looted gold controls. The remaining $88 million in gold divided into three categories: gold that could not be identified as having ever been under "earmark" in the United States in the prewar period ($39 million); gold that was held under "earmark" in the United States but had been exported to Argentina prior to February 22, 1944 ($20 million); and gold held under earmark in the United States and exported to Argentina subsequent to February 22, 1944, when the Gold Declaration was issued ($29 million). Only the gold that was in the United States at the time of the Gold Declaration ($29 million) was eligible for purchase.[90]

Understanding the urgency of the situation, State accepted Treasury's request, and the two agencies sent a cable to the Embassy in Buenos Aires on October 8, 1947, stating that Argentina would have to certify that it had not obtained gold from the Axis or Axis-occupied countries, or from Spain, Portugal, or Turkey before the United States would finish its purchase of the Argentine gold shipment.[91] Argentine authorities responded that they had not received gold from any of the countries in question, but did report purchasing a total of 1,820 ounces of gold ($63,700) from Switzerland between 1940 and 1947.[92] The terms of the May 1946 Allied-Swiss Accord included a waiver of any further Allied claims to monetary gold from Switzerland and foreclosed questioning Switzerland or the Swiss National Bank about their dealings with Argentina. But the State Department continued to seek information about possible Argentine acquisitions from the German Reichsbank account in the Swiss National Bank: "If Argentina acquired no gold from German Reichsbank account Switzerland this gov satisfied re Gold Declaration and Treas would proceed with gold transactions." Under Secretary of State Lovett wanted the

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[88] "Joint Statement Following Discussions With Ambassador Ivanissevich of Argentina," June 3, 1947 in *Public Papers of the Presidents of the United States: Harry Truman, 1947*, p. 261; *Foreign Relations*, 1947, vol. VIII, pp. 186-187. See also ibid., pp. 188-189, 192-193.

[89] For documentation on Argentina's cooperation at the Rio Conference, see ibid., pp. 1-93.

[90] Memorandum to the Files, October 7, 1947, RG 56, Acc. 66A-155, Office of International Finances, International Conference Files, Box 70. Secretary of Treasury to Secretary of State, undated, ibid; Schmidt to Southard, October 1, 1947, ibid.

[91] Schwartz to Schmidt, October 9, 1947, ibid., Box 33.

[92] Bruce to the Secretary of State, October 13, 1947, RG 84, Embassy Buenos Aires, Confidential File 1947, 851, Box 104.

bar numbers, mint marks, and other identifying symbols on gold acquired from Switzerland for the ongoing U.S. gold investigations.[93]

The Argentine Central Bank gave the United States written assurance on October 23, 1947, that its gold acquired from the Swiss never had Reichsbank or German ownership. The assurance fulfilled the Treasury Department's requirements under the 1944 Gold Declaration to permit the Federal Reserve to purchase Argentine gold on behalf of the Treasury. Missing from Argentina's written assurance, however, were the identifying markers Acting Secretary Lovett had requested. Lovett persisted in seeking such information, and instructed the Embassy that the information would help facilitate the completion of records by the U.S. Government and the Tripartite Gold Commission.[94] Ambassador Messersmith however felt that requesting details about Argentina's Swiss gold could reverse positive developments in U.S.-Argentine relations and argued against such an approach to the Argentine Government about the issue.[95] The matter appears not to have been pursued further.

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[93] Lovett to Buenos Aires, October 15, 1947, RG 56, Acc. 66A-155, Country Files, ARG/3/000-ARG/3/75, Box 33.

[94] Lovett to Buenos Aires, October 23, 1947, ibid. For the letter documenting the Argentine Central Bank's gold acquisitions, see Julian Greenup to the Secretary of State, October 22, 1947, RG 84, Embassy Buenos Aires, Confidential File 1947, 851, Box 104.

[95] Julian Greenup to the Secretary of State, October 22, 1947, ibid.

Allied Relations and Negotiations With Portugal

A. Portugal's Neutrality and Expanded Wartime Economy

When World War II began in 1939, Portugal had strong and long-standing political and emotional ties to Britain dating back to the Anglo-Portuguese Alliance of the 14th century. Britain was Portugal's leading trade partner with 629 million escudos (over $25 million) in total commerce in 1938. Portugal's relationship with Hitler's Germany emerged during the Spanish Civil War of 1936-1939, when Portuguese Prime Minister Dr. Antonio de Oliviera Salazar sided with the dictatorships, assisted Germany in smuggling arms to Spanish General Francisco Franco's forces, and sent Portuguese volunteers to fight with Franco's army. To gain one of his long-term goals for Portugal—stabilization and development of the country's economy—Salazar encouraged foreign trade and investment, a growing portion of which came from Germany. By 1938 Germany was Portugal's second largest trade partner with 526 million escudos (almost $22 million) in total commerce.[1]

Portugal, which had joined the British alliance early in World War I and sent over 50,000 troops to the front, stood aside from the new world war. At the outbreak of the War in September 1939, Salazar publicly protested Hitler's blitzkrieg through Catholic Poland but declared Portugal's neutrality. There were dangers in this neutrality. Portugal's weakened economy, strategic location on the southeastern tip of Europe, valuable colonial possessions in the Atlantic and Africa, and important commodities posed real threats to continued Portuguese neutrality and sovereignty. Salazar promised both belligerents open trade for Portugal's valuable domestic and colonial resources.[2] Also important early in the War was fear of the German military machine: with the Wehrmacht less than 260 miles from Portugal's border in southern France and the ever-present possibility of a German-Spanish alliance, Salazar was concerned about the possible presence of German troops in Spain. In the opinion of Dean Acheson, then Assistant Secretary of State, Salazar granted favors to Germany in the trade war after computing "the relative danger of German and allied military pressure on him. German

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[1] "Portuguese External Commerce," Military Attaché Report 2833, December 3, 1943, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2845. Some historians have noted that Salazar, a devout Catholic, despised Hitler's paganism and anti-clericalism, but as an ardent anti-Communist, decided to work with the Fascist regimes in Rome and Berlin. See, for example, Tom Gallagher, *Portugal: A Twentieth Century Interpretation* (Manchester, UK and Dover, NH, 1983), pp. 85-98.

[2] *The War and the Neutrals*, pp. 316-322, edited by Arnold Toynbee and Veronica M. Toynbee, in the *Survey of International Affairs 1939-1946* series (London, New York, 1956). Scholars have argued that Salazar favored the Allies, but as a patriot and pragmatist, believed that Portugal was too weak to survive as a belligerent. See, for example, Gallagher, Portugal: A Twentieth Century Interpretation, pp. 101-102, and Douglas L. Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II," *Luso-Brazilian Review*, vol. 23, No. 1, Summer 1986.

troops in Spain would be as uncomfortable for Portugal as had been Napoleon's a century and a quarter earlier."[3]

Portugal's role as a neutral in the War had a profound effect on its economy. Portugal was predominantly a pastoral country prior to the War, its commerce dominated by agriculture and fishing.[4] Between 1937 and 1939, annual exports averaged 1.2 billion escudos (nearly $50 million) and imports averaged 2.2 billion escudos (nearly $90 million), creating a trade deficit. By 1942 exports had grown to almost 6 billion escudos (nearly $240 million), and imports to 4.3 billion escudos (nearly $172 million), creating a trade surplus of $68 million.[5] Private banks' assets nearly doubled over the first four years of the war, and assets at the Bank of Portugal more than tripled. By 1943, government revenues, drawn primarily from export taxes, had increased nearly 44 percent over their 1939 levels.[6] Raw materials essential for both the Axis and Allied war industries, such as wolfram, tin, chromite, manganese, and mica, increasingly dominated Portuguese exports.[7] An Allied study of Portugal's financial position in April 1945 concluded that the country did indeed "benefit financially during the war" through its trade with both sets of belligerents.[8]

Portugal practiced during the War what Assistant Secretary Acheson described as "classical legal neutrality,"[9] balancing its trade as much as possible with each side. Both Germany and the Allies waged an economic war to lure Portugal to their side through a combination of threats and lucrative trade deals. The Allies benefited from the venerable Anglo-Portuguese Alliance and Portugal's dependence on U.S. petroleum, coal, ammonium sulphate, and wheat.[10] In October 1940 Britain capitalized on its long-standing ties with Portugal to induce it to sign a "payments agreement," which enabled Britain to use sterling to buy Portuguese goods and receive credit for escudos. The agreement allowed Britain to compete with Germany for Portuguese goods at a time when Britain was short on gold and hard currency. In contrast, Sweden and Switzerland

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[3] Acheson, *Present at the Creation*, p. 87.

[4] "German Economic Interests in Portugal," October 1945, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13.

[5] "Portuguese Foreign Trade During the War," March 13, 1944, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2845. According to a British study, for the five-year period ending December 31, 1944, Portugal had an overall trade surplus of 1.113 billion escudos or $44.7 million. (Despatch 28, April 20, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3)

[6] Despatch 28, April 20, 1945, ibid.

[7] "Portuguese Foreign Trade During the War," March 13, 1944, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2845.

[8] Despatch 28, April 20, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

[9] Acheson, *Present at the Creation*, p. 87.

[10] Hull, *Memoirs*, vol. II, p. 1135; Medlicott, *The Economic Blockade*, vol. I, pp. 526-529; "Portuguese External Commerce," Military Attaché Report 2833, RG 165, Regional File, Portugal 1922-44, Box 2845; "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 81-87, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

were demanding gold in their trade with Britain. By the end of the War, Britain had incurred debts under this agreement of about 80 million pounds ($322.4 million).[11]

While Germany's trade relations lacked the facility of the Anglo-Portuguese "payments agreement," it had equally advantageous informal arrangements. Much of the commerce between Portugal and Germany was conducted through the 1935 Luso-German Clearing Agreement, which established a procedure by which most of the international payments between Portugal and Germany were made through the facilities of the Deutsche Verrechnungskasse and the Bank of Portugal. The system guaranteed in theory that the value of one country's exports was balanced by the value of its imports and that neither country would incur debts for goods. In practice, however, because of the high demand for Portuguese products, Germany usually imported more than it exported, running up debts that the Bank of Portugal covered. Deficits under the Clearing Agreement averaged between 13 and 23.5 million Reichsmarks ($5.12-$9.26 million) between 1943 and 1944. On several occasions during the War, Germany paid down this debt with Swiss francs it had purchased with gold or directly with gold. The Allies believed that after 1942 most of this gold was looted.[12]

A November 1945 study by the U.S. Embassy in Lisbon noted that Portuguese firms and government ministries also routinely advanced "substantial amounts" of escudos to Germans when they contracted to purchase goods. While unable to determine a total, the study noted that the Portuguese Government usually made advances of 20 to 30 percent of the value of its contracts with Germany and was claiming almost 91 million escudos ($3.64 million) at the time in losses on advances for undelivered German goods. The report concluded that the Germans "did not lack escudos to carry on their purchasing or other activities." Portugal also had a similar clearing and advance policy with Fascist Italy, which by September 1943 had incurred a 67.1 million lire ($3.38 million) debt.[13]

In addition to the regular commerce between Portugal and Germany, Portuguese merchants were an important source for the Axis of smuggled goods and raw materials from South America and Africa that were not readily available in continental Europe. By 1942, the Allies were able to stem the flow of bulk raw materials and larger items to the Axis through a comprehensive certification and search and seizure program, but smaller

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[11] Memorandum from Wood to Baruch, November 19, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 3 of 3; *The War and the Neutrals*, p. 29. A later source puts the total debt at 90 million pounds; see Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II," *Luso-Brazilian Review*, vol. 23, No. 1, Summer 1986, p. 111. Dollar conversion is based on 1 pound = $4.03.

[12] "German Economic Interests in Portugal," October 1945, RG 169, Office of the Administrator, Records and Analysis Division, Research Reports and Studies, Box 13; memorandum from Wood to Baruch, November 19, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 3 of 3; Treasury Department Report, "German Clearing Agreements," July 27, 1944, ibid., Subject Files of Commercial Attaché James Wood, 1942-1945, Box 1 of 3.

[13] Memorandum from Wood to Baruch, November 19, 1945, ibid., Records Relating to German External Assets in Portugal 1947-1956, Box 3 of 3. Dollar values are based on the following conversion rates included in this memorandum: 1 Reichsmark = 9.852 escudos; 1 lira = 1.258 escudos; and $1 = 24.815 escudos.

items, such as drugs, chemicals, and certain minerals that were easy to conceal, continued to sneak through. These items were critical to the Axis war effort and thus even small amounts were highly valuable. A January 1944 analysis of blockade violations found that 22 Portuguese vessels had been involved in smuggling, second only to Spain.[14]

Of the smaller items smuggled, Germany was most in need of industrial diamonds, used in precision machining and critical to the armament, aircraft, automotive and mining industries; and platinum, used in electrical contacts, heat elements, electrodes, x-ray and radio tubes, and as catalyst in a host of chemical processes including the making of nitrates and sulfuric acid. To counter the growing contraband trade in these items, the Allies in spring 1943 began a comprehensive preclusive buying program in Latin America and Africa, along with stepped-up intelligence activities and comprehensive searches of neutral vessels, mostly Spanish, traveling from South America to Iberian ports. This program seemed to have some success in slowing down the platinum trade, but evidence of success with diamonds was inconclusive. Allied estimates indicated that by January 1944 the Germans would exhaust their supply of industrial diamonds and increase smuggling efforts, but instead the opposite occurred. By 1944 the Iberian black market in diamonds dried up, leading the Allies to believe that the Germans were successfully smuggling in diamonds from South Africa, possibly by plane through Egypt, or using Portuguese merchants, who had well-established trade connections in Africa. Allied officials, however, were unable to gather conclusive evidence to support this theory.[15]

B. Portuguese Wartime Trade in Wolfram

Allied trade objectives in Portugal were twofold: to procure certain vital goods that they could not easily obtain elsewhere, and to limit as much as possible Portuguese export of certain strategic goods needed by the Axis, either through Portuguese acceptance of export limits or Allied preclusive buying of Portugal's exportable surpluses. The Allies began trade negotiations with Portugal in 1941, and in November 1942 reached two accords. In one the Allies agreed to sell Portugal specified quantities of coal, petroleum products, ammonium sulphate, and wheat in exchange for commodities such as rubber, sisal, copra, and palm oil. In the other agreement, the Portuguese promised to limit their export of skins, wool, and minerals to the Axis and their imports of certain goods that the Allies believed might be re-exported to the Axis. In July 1940 Prime Minister Salazar facilitated the conclusion of a trade agreement between his country and Spain, which assured that certain key goods would be traded

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[14] "History of Blockade Division, Enforcement Section," December 15, 1944, and "Blockade, Bargains and Bluff: Allied Economic Warfare in the European Neutrals," undated, circa spring 1945, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 1.

[15] Ibid.; Medlicott, *The Economic Blockade*, vol. II, pp. 435-445.

between them and not with the Axis, indirectly aiding the Allies. The agreement was renewed in September 1942 and February 1943.[16]

With agreements such as these in place, the Allies took a far greater share of Portugal's strategic goods during the War than did the Axis, but the trade figures belied the importance of one key export to Germany that the Allies were unable to stop—wolfram.[17] Wolfram ore, when processed into the extremely hard metal tungsten, had myriad uses, the most important of which were light-bulb filaments, steel-cutting machine-tools, and armor-piercing shells. Both the Allies and the Axis needed wolfram to maintain their industrial base, and Portugal, as the leading continental producer of wolfram before the War (Spain was second), was in a unique position to take advantage of this demand. The Allies, unlike Germany, had easier access to sources in Latin America and the Far East and were not dependent on the Portuguese market. Germany, with only limited access to these alternative sources because of the Allied blockade, was dependent on the two Iberian countries for the bulk of its supplies.[18] The Allied objective during the War was to purchase enough of the ore to satisfy Portugal's export demands and prevent it from increasing its trade with the enemy. The onset of war, therefore, brought on a competition between the two sides for Portugal's production, driving up prices 775 percent over pre-war rates by 1943. Production also soared, from about 2,419 metric tons in 1938 to 6,500 tons in 1942, making it a $100 million-a-year industry.[19]

Allied estimates of Germany's wolfram requirements were based on their knowledge of pre-war German industry and tungsten stockpiling; captured enemy documents, machinery, and artillery; limited military intelligence; and comparisons to their own wolfram consumption.[20] At the height of the trade in July 1943, the British estimated that Germany needed a minimum of 5,800 metric tons of wolfram annually, while the Americans placed that figure at 3,590 tons. The different estimates arose from differing analyses of German machine tooling and artillery requirements. The British

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[16] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

[17] Hull, *Memoirs*, vol. II, pp. 1343-1344.

[18] "Wolfram and the War," February 4, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1922-44, Spain, Box 2845; Medlicott, *The Economic Blockade*, vol. I, pp. 509-513.

[19] *Foreign Relations*, 1943, vol. II, p. 509; Dickerson to Secretary of State, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3; Hull, *Memoirs*, vol. II, p. 1343-1344. The production figure for 1938 is from *The Statesman's Year-Book, 1940*, p. 1231. The production figure for 1942 is from "Brief Survey of Exportable Surpluses in Portugal," June 22, 1942, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2845. At the height of the trade in 1943-1944, up to 90,000 mining-related jobs were created by the "wolfram fever," which drew many young men from their villages and created a class of independent, unscrupulous entrepreneurs known as "volframistas." See Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II, *Luso-Brazilian Review*, vol. 23, No. 1, Summer 1986, pp. 113-114.

[20] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, p. 122, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

believed that the Germans needed 3,500 tons for machining alone, while the Americans, claiming that German tool design consumed less tungsten than the Allies' equivalent, felt they could survive on 2,500 tons. In artillery, the British felt that the Germans would need 1,500 tons annually, based on their experience during the North African campaign. The Americans, in contrast, argued that while conditions in North Africa favored the use of high-velocity, low-caliber tungsten-carbide ammunition, in Europe, where the Germans had stockpiled larger guns and heavier artillery, tungsten-carbide shells would provide no significant tactical advantage. As a result, the Americans predicted the Germans would rely on their stockpiles and require no additional wolfram for artillery.[21]

By February 1944 the United States and Britain agreed that Germany's minimum annual requirement was about 3,500 tons, with any additional procurement going to armor-piercing shells.[22] While they realized this estimate was based on conjecture, the fact that Germany had been making such extraordinary efforts throughout the War to acquire wolfram confirmed for the Allies that Germany considered it a vital resource. The Allied goal, therefore, remained to keep as much of the ore from Germany as possible.[23] Both Allies concurred that wolfram was most critical to the German machine-tool industry. Compared to U.S. tools, which used molybdenum tips, German tools were designed for tungsten-carbide tips and could not be readapted or replaced without crippling German production. In fact, Allied officials predicted that if Germany were deprived of wolfram, its machine-tool industry would virtually shut down within three months,[24] thereby shortening the War or severely impacting Germany's capacity to continue to pursue the War.

C. Allied Competition With Germany for Portuguese Wolfram, 1941-1942

Portugal's strict adherence to neutrality posed a significant hurdle for the Allies in their effort to limit Germany's imports of wolfram. In comparison to Spain, which allowed a free market in wolfram throughout the War, by 1941 Portugal began placing strict controls on its mining and exports, depriving the Allies of an important advantage in the preclusive buying campaign: their ability to out-pay Germany with hard currency. In 1942 the Portuguese began implementing a quota system, permitting each side to export the production of its own mines up to a certain amount as well as a fixed percentage of the yield from independent mines and prospectors. All the wolfram was

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[21] "Tungsten Position of the European Axis," July 3, 1943, ibid., Research Reports and Studies, Box 11.

[22] "Raw Materials Position of Enemy Europe," February 14, 1944, ibid., Box 2.

[23] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, p. 122, ibid., Historical Monographs Prepared Outside the Division, Box 5.

[24] "Ferro-Alloys and Their Effect on Steel in the German War Economy, 1943 and 1944," June 1944, ibid., Research Reports and Studies, Box 13.

sold to the Portuguese Metals Commission, which resold it to each side at a flat rate per ton, including a large tax, for export.[25]

Under this system, mine ownership provided a distinct advantage in the competition for wolfram. Britain owned Portugal's largest mining concern with an annual output of 1,600-2,000 tons, and Germany owned two mid-sized concerns, as well as a number of smaller mines with a combined output by 1941 of 945 tons. Britain had also contracted to purchase most of the production of Portugal's second largest mine, with an annual yield of 600 tons, but the mine was owned by a French company, and after the fall of France, the Vichy government began efforts acquire it. To prevent this, the British began legal action in Portugal, tying up most of the mine's yield in litigation through 1941. By the end of 1941 Britain had acquired 3,662 tons of wolfram, about 64 percent of Portugal's available production, leaving Germany with the remaining 2,038 tons exported that year. Nonetheless, Germany's share represented almost 60 percent of its minimum annual requirement of 3,500 tons. Germany had also procured as much as 1,000 tons from Spain, and an undetermined amount from smuggling and other sources.[26]

In January 1942 Portugal concluded a secret agreement granting Germany export licenses for the sale of up to 2,800 tons of wolfram under the new quota system, including half the production from independent mines. In exchange Germany agreed to deliver significant amounts of coal, steel, and fertilizer, which Portugal needed and which the Allies could not then supply.[27] The agreement was to run from March 1942 to March 1943. When the Allies learned of the agreement, they lobbied Portugal intensively to revise the pact, suggesting that they would consider cutting deliveries of vital supplies from the United States. By August Portugal agreed to grant the Allies export licenses for up to 4,000 tons, including most of the production of the French-owned mine, which Portuguese courts decided in February belonged to Britain. The Allies learned, however, that Germany would receive 75 percent and the Allies 25 percent of the output of independent mines. The Portuguese claimed this division was fair because the Allies controlled more mines, despite the fact that Portugal's supplies were far more critical to Germany. In addition, the Portuguese Metals Commission began paying a higher rate for ore produced by independent mines than that from Axis or Allied mines, increasing the

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[25] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 56, 127-129, ibid., Historical Monographs Prepared Outside the Division, Box 5.

[26] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 122-127, 133-134, 165, ibid.; Medlicott, *The Economic Blockade*, vol. I, pp. 524-529. A June 1943 report on smuggling between Germany and the Far East, based on intercepted German and Japanese cables decrypted by U.S. authorities and available to U.S. leaders, indicated that between January 1941 and April 1943 Germany obtained 1,918 tons of wolfram from the Far East, in addition to the Portuguese and Spanish wolfram. ("Magic" Diplomatic Summary, June 8, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 5)

[27] Medlicott, *The Economic Blockade*, vol. II, p. 325. Portugal also signed trade agreements with Romania (June 1942) and Hungary (December 1942) for a total exchange of goods worth 80 million escudos. As part of these exchanges, Portugal promised each country 5 tons of wolfram. ("Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 87-88, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5)

incentives for independent production to Germany's advantage under the percentage distribution. Portugal did, however, promise the Allies that their share of the output of independent mines would be increased to 50 percent when the agreement expired at the end of February 1943.[28] By December 1942 the Allies estimated that Germany had purchased 2,040-2,220 tons for the year, about 58-63 percent of its requirements.[29]

D. Allied Attempts To Deny Portuguese Wolfram to Germany, 1942-1943

By late 1942, in response to Germany's success at procuring wolfram from Portugal, the United States began advocating increased use of illegal purchases to buy the supply of the independent mines. Both the Germans and the Allies had engaged in illegal purchasing since the Portuguese Government began regulating the market in late 1941, but the Germans, who were more desperate for independent wolfram than the Allies, were taking in more. The two principal means of illegal procurement were "absorption," claiming black market wolfram purchased from independent producers, and smuggling ore over the Spanish-Portuguese border. The Germans favored smuggling into Spain because the contraband could be more easily secreted from there to the Axis countries, and they began a concerted effort to acquire smaller mines on each side of the frontier.[30]

The British were initially reluctant to increase illegal purchasing for fear of antagonizing the Portuguese and jeopardizing their own wolfram imports. Since Japan's military successes in the Far East in 1941, they had become more dependent on Portuguese supplies. In spring 1943, after the Allies learned that the Germans had been involved in large-scale smuggling, the British consented to the American plan for illegal acquisition. Allied illegal purchases increased from about 10 tons a month in December 1942 to 40 tons by July 1943. Estimates of German illegal purchases increased from about 45 tons a month in 1942 to 50 tons by 1943.[31]

Early in 1943 the Allies began negotiations with the Portuguese for a new wolfram agreement, hoping to increase their share of the independent yield. They also

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[28] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 129-139, ibid.; Medlicott, *The Economic Blockade*, vol. II, pp. 325-336.

[29] The low estimate is based on monthly procurement figures as of December 1942 in "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, p. 140, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5. The high estimate is from "Portuguese Foreign Trade During the War," March 13, 1944, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2845. A later source puts the 1942 figures at 4,588 tons for the Allies and 1,405-1,555 tons for Germany. (Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II," *Luso-Brazilian Review*, Vol. 23, No. 1, Summer 1986, p. 118)

[30] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 124-125, 133, 135-136, 140-143, 155, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5; Medlicott, *The Economic Blockade*, vol. I, pp. 524-529 and vol. II, pp. 595-598.

[31] Ibid. Medlicott notes that the Germans smuggled 550 tons of Portuguese wolfram through Spain in the first half of 1943 (vol. II, p. 596); presumably this is the evidence of large-scale smuggling the Allies received in the spring of 1943.

began talks on renewing the November 1942 supply-purchase agreement, which was due to expire by June. During both discussions, the Portuguese pressured the Allies to reduce their prices for products, such as ammonium sulphate and petroleum products, bought and sold under the supply-purchase agreement. The Allies refused, and the Portuguese would not agree to increase the Allies' share of independent wolfram when the 1942 agreement expired in February.[32]

Negotiations over both accords continued until May 1943, when Portugal accepted the Allies' terms for renewing the supply-purchase accord. At the same time, Portugal revealed that it had again concluded a wolfram trade agreement with Germany. The Allies asked about the terms of the agreement so they could make a counter-offer, but the Portuguese were reluctant to divulge the details, claiming they had a sovereign right to conclude an agreement with Germany. They argued that their actions were justified because of the Allies' refusal to yield on prices. The U.S. Minister in Lisbon, Hamilton Fish, described the secret deal as "another demonstration of Salazar's determination to use Portugal's strategic raw materials as a bargaining counter for wartime supplies," but admitted that at that point the Allies' negotiating position was "still not a strong one" because Germany could deliver "a wide range of commodities...with reasonable punctuality," while the Allies were dependent on Portuguese vessels for shipping (except petroleum).[33]

In June 1943 the Allies learned the terms of the agreement between Portugal and Germany, which had been signed in April but made retroactive from February 1. Germany was guaranteed export licenses for up to 2,100 tons of wolfram, less than the maximum allowed in the January 1942 accord, but comparable to annual German imports over the previous two years and still about 60 percent of its requirement.[34] In exchange Germany pledged to sell Portugal 40,000 tons of steel, railway cars, war material, and ammonium sulfate, all at favorable prices.[35] Germany had also gained some advantages over the Allies in the last year by acquiring the largest independent mine, increasing production in the mines it already owned, and increasing its take of black-market wolfram. Furthermore, the Allies found that the Portuguese Metals Commission had been including lower-grade wolfram in the Allied share of the independent production as well as delaying deliveries, raising fears that the Commission was favoring Germany.[36]

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[32] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 143-145, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5; Hull, *Memoirs*, vol. II, pp. 1336-1337. See also *Foreign Relations*, 1943, vol. II, pp. 497-517.

[33] Telegram 1008 from Lisbon, May 8, 1943, ibid., pp. 517-518.

[34] Telegram 1435 from Lisbon, June 30, 1943, ibid., pp. 524-525. The agreement contained no obligation to supply definite quantities of wolfram but only a guarantee of export licenses.

[35] Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II," *Luso-Brazilian Review*, Vol. 23, No. 2, Winter 1986, p. 98.

[36] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 140-141, 144-145, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

The Allies protested strongly to Salazar about Portugal's agreement with Germany and extracted an interim agreement to divide exports 50-50 from March through June 1943.[37] The United States turned to Brazil to help increase diplomatic leverage on Portugal, and on September 10, 1943, Secretary Hull instructed Ambassador Jefferson Caffery to persuade Brazil to join the United States in persuading Portugal to halt all wolfram exports to Germany: "We pointed out that if German acquisitions of wolfram in Portugal could be kept to a minimum, there was little doubt that German reserves might be completely exhausted at the end of the year and that German production of armor-piercing ammunition would be very seriously impeded." Hull felt that Brazil responded with full backing to the Portuguese negotiations.[38]

Parallel to the wolfram negotiations, the Allies in 1943 pressed forward with efforts to acquire air and naval bases on the Azores islands. The battle in the Atlantic between the Allied convoys and the growing German submarine fleet reached its peak in the spring of 1943, and the need for Allied anti-submarine air bases from which to patrol the vulnerable southern Atlantic convoy routes to Europe became acute. The British, for whom the Azores were so critical, had not seized the islands because of the fear that Germany would retaliate by invading Portugal or the entire Iberian peninsula. By the middle of 1943 the British Chiefs of Staff felt that risk of German reaction to the occupation of Portuguese bases had essentially passed.[39]

The acquisition of bases in the Azores was discussed by President Roosevelt, Prime Minister Churchill, and their military advisers at their meetings in Washington, May 10-25, 1943, and in Quebec, August 14-24, 1943. Toward the end of the Washington Conference, Churchill summed up for the British Cabinet (which opposed the military seizure of the Azores on moral grounds and out of concern for negative political and economic consequences) the justification for acting swiftly to occupy the Azores:

> "My estimate that 1,000,000 tons of shipping and several thousand lives might be saved was regarded by the Combined Chiefs of Staff as a serious underestimate. In short, military necessity is established in the most solid manner....I cannot see that there is any moral substance in the legalistic point involved in overriding the neutrality of Portugal in respect of these islands which are of no peace-time consequence but have now acquired vital war significance. The fate of all these small nations depends entirely upon our victory....It is a

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[37] The exchanges between Washington and Lisbon on these negotiations are documented in *Foreign Relations*, 1943, vol. II, pp. 517-525. Sir Llewellyn Woodward, in *British Foreign Policy in the Second World War* (London, 1962), p. 383, notes: "There was a certain paradox in the fact that economic negotiations generally were easier with Spain than with Portugal. One reason was that in Spain General Franco left the arrangements almost entirely to the Ministry of Commerce and Industry where matters were argued on a basis of Spanish economic interest, whereas in Portugal Dr. Salazar himself undertook the negotiations, and brought into them his own sensitiveness about Portuguese sovereignty."

[38] Hull, *Memoirs*, vol. II, p. 1336.

[39] Michael Howard, *The History of the Second World War*, United Kingdom Military Series, *Grand Strategy*, vol. IV, August 1942-September 1943 (London, 1972), pp. 452-453.

painful responsibility to condemn so many great ships of the British and American flag to destruction and so many of our merchant seamen to drowning because our inhibitions prevent us from taking the action which would save them....In this case the issue is far more precisely pointed because the rate of new buildings over sinkings is the measure of our power to wage war and so to bring this pouring out of blood and money to a timely end."[40]

Churchill and Roosevelt agreed to give diplomacy a chance to succeed. While the British and U.S. military chiefs readied plans for forcibly seizing the Azores, British diplomats invoked the 600-year old Anglo-Portuguese Alliance and succeeded in concluding an agreement with Salazar and his aides on August 17, 1943, that permitted British forces to land in the Azores beginning on October 10. Allied commitments under the Anglo-Portuguese Agreement were explained to Marshal Stalin by Churchill and Roosevelt in the following terms:

> "Dr. Salazar was of course oppressed by the fear of German bombing out of revenge, and of possible hostile movements by the Spaniards. We have accordingly furnished him with supplies of anti-aircraft artillery and fighter airplanes which are now in transit, and we have also informed Dr. Salazar that should Spain attack Portugal we shall immediately declare war on Spain and render such help as is in our power."[41]

American military leaders were distressed that the Anglo-Portuguese Agreement failed to provide for U.S. bases, and Roosevelt and Hull refused to support the British pledges to abandon the facilities at the end of the War. Instead the United States pressed ahead with its own separate negotiations, although with little success initially. Chargé George Kennan described the circumstances in Lisbon as follows:

> "He [Salazar] feels that he has strained his relations with the Germans to utmost already and that we will be lucky if he gets off with sinking of a ship or two and possibly some reprisals in Azores area. The idea of giving the Germans further cause for offense at this moment would appall him. I cannot disagree with

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[40] Telegram Pencil No. 159 from Churchill in Washington to Attlee and Eden in London, May 21, 1943, *Foreign Relations*, The Conferences at Washington and Quebec, 1943, pp. 310-311.

[41] Telegram from Quebec Conference, August 19, 1943, ibid., p. 1091. The text of the Anglo-Portuguese Agreement is in *British and Foreign State Papers*, 1946, vol. 146, pp. 447-451.

According to an intercepted message decrypted by U.S. authorities and available to U.S. leaders, the German Foreign Ministry informed the Portuguese Ambassador to Berlin that, "Since England and America were going to be able to use the Azores...Germany had to reserve the right to act as the occasion might demand 'without considering the question of Portuguese territorial waters.'" Nonetheless Germany was not willing to break its vital commercial ties with the Portuguese, noting that "it would be highly regrettable if our two countries were unable to maintain economic relations." ("Magic" Diplomatic Summary, November 2, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 8) According to another intercepted message, Salazar told the Japanese Ambassador in Lisbon that the agreement was the least he could give the Allies without jeopardizing vital supplies to Portugal. In response to the Axis protests, Salazar emphasized the limited terms of the Azores agreement: it dealt with only one port and one airfield, American planes would not be allowed, and only American ships in convoy with British ships would be permitted to use the facilities. ("Magic" Diplomatic Summary, October 17, 1943, ibid.)

this analysis. German-Portuguese relations seem indeed perilously close to the breaking point. Any further strain may well cause complications which would run counter to our desire to keep the Peninsula quiet at this juncture."[42]

In late 1943 Salazar adopted an interpretation of the British-Portuguese Agreement that allowed U.S. aircraft to use the British facilities in the Azores islands, but he remained opposed to granting facilities outright to the United States, "as long as he is trying to remain neutral."[43]

The lucrative Portuguese wolfram trade with the Allies and Germany continued. By July 1943 overall production had increased to 7,200 tons per year, with the Allies taking 400 tons a month, 100 tons more than their average in 1942, and the Germans taking 200 tons a month, 30 tons more than their 1942 average. At that rate, Germany was expected to increase its imports to 2,400 tons for the year, excluding smuggling, almost 70 percent of its minimum requirement.[44] By the end of 1943, with more than enough ore to supply their own needs, the Allies began to take measures to reduce Portuguese production. These included reducing production in their own mines to minimize the ore's theft and sale on the black market and both legal and illegal purchasing of independent wolfram to lessen the small producers' incentives to produce. In reducing smuggling, they were aided by Portugal's increased efforts also to end smuggling, which was reducing Portuguese revenues by escaping taxation.[45] These efforts helped stem the gains Germany had made by the increase in overall production, and by the end of the year Germany had imported 2,097 tons, comparable to the average take since 1941 but less than the projections in July for the year.[46]

E. Cessation of Portuguese Wolfram Exports, June 1944

In early 1944 the United States and Britain approached Salazar directly about limiting Portuguese wolfram exports to Germany. In January the State Department instructed the Legation in Lisbon to point out to Salazar the consequences to the Portuguese economy if communications between Germany and Portugal were cut and the German buying of wolfram ended. "Consequently, it would appear most advantageous to the Portuguese to make some arrangement at this time which would cushion the effect upon Portuguese economy of the Germans and ourselves from the market. If arrangements for stopping or reducing shipments to Germany cannot be made to our

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[42] Telegram 2469 from Lisbon, October 20, 1943, *Foreign Relations*, 1943, vol. II, pp. 558-559.

[43] Telegram 2906 from Lisbon, December 2, 1943, ibid., p. 573.

[44] "Iberian Exports of Mineral and Metals to Axis Europe - 1943," January 12, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1942-44, Portugal, Box 2845.

[45] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 154-158, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

[46] "Iberian Exports of Mineral and Metals to Axis Europe - 1943," January 12, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1942-44, Portugal, Box 2845.

satisfaction at this time, we cannot undertake to assist the Portuguese economy when wolfram purchases are completely stopped."[47]

Salazar demurred, pleading fear of German retaliation and concern for maintaining Portuguese neutrality. He argued that such a "denial of wolfram to Germany would reduce her power of endurance, and the war would accordingly be shortened,"[48] clear recognition that these exports were critical to the Nazi war machine and to sustaining the War.[49]

At the end of March 1944, Salazar refused a written request from Prime Minister Churchill for a permanent embargo on wolfram exports to Germany on the grounds that Germany would regard the action as a "hostile act" and he refused to "have Portugal drawn into the war directly or indirectly through the wolfram issue."[50] As late as May, during an approach by the Brazilian Ambassador, Salazar stated that "a total embargo on wolfram to belligerents would not be fair in his consideration, and as a neutral he could not completely cut off supplies to Germany."[51] While refusing to impose a complete embargo, Portugal did cooperate with the Allies to reduce smuggling, and by the end of the year contraband traffic had decreased markedly.[52] Portugal nevertheless continued exporting wolfram to Germany at about the same rate as during 1943, and refused to implement measures that would reduce its revenues.[53]

By April 1944 the United States decided to use economic sanctions to pressure Portugal to stop wolfram exports to Germany, but Britain continued to be reluctant.[54] In a note to the British Government in May 1944, the State Department pointed out that Portugal was "entirely dependent for petroleum products and other important items" on the U.S. and British Governments, was "bound by the most solemn treaty obligations to

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[47] Telegram 132 to Lisbon, January 27, 1944, *Foreign Relations,* 1944, vol. IV, pp. 87-90. See also ibid., pp. 91-132 and Hull, *Memoirs,* vol. II, pp. 1336-1339.

[48] Telegram 1371 from Lisbon, May 6, 1944, *Foreign Relations*, 1944, vol. IV, pp. 102-104. The quote is in "Weekly Intelligence Report #204, February 4, 1944, RG 165, Records of the Military Intelligence Division, Regional File, Portugal 1922-44, Box 2846.

[49] According to an intercepted message decrypted by U.S. authorities and available to U.S, leaders, in March Portugal assured Germany that it would renew the 1943 agreement, which expired in February, and as a good faith gesture, would supply Germany with 200 tons of wolfram from Portuguese stocks to make up an amount past due from 1943. ("Magic" Diplomatic Summary, March 11, 1944, RG 457, "Magic" Diplomatic Summaries , 1942-1945, Box 10)

[50] Telegrams 896 and 958 from Lisbon, March 25 and March 31, 1944, *Foreign Relations*, 1944, vol. IV, pp. 99-101.

[51] Telegram 1371 from Lisbon, May 6, 1944, ibid., pp. 102-104.

[52] Hull, *Memoirs,* vol. II, pp. 1338-1339. An intercepted April 1944 German cable from Madrid to Berlin, decrypted by U.S. authorities and available to U.S. leaders, indicated that Portugal was stalling on German requests to begin negotiating a new wolfram deal. ("Magic" Diplomatic Summary, April 25, 1944, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 10)

[53] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 155-158, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5; Hull, *Memoirs,* vol. II, pp. 1338-1339.

[54] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 155-158, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

the British Government," could no longer feel "imperiled" militarily by Germany, and thus should acquiesce to Allied demands.[55] By June the British concurred, and on June 5, 1944, several days after Spain had agreed to reduce markedly its wolfram exports to Germany, Portugal imposed a complete embargo on wolfram exports to both Germany and the Allies. Immediately after the Portuguese embargo, both Britain and the United States began negotiations with Portugal for supply-purchase agreements.[56] Salazar's decision was based in part on his judgment that the unrestrained wolfram trade was undermining traditional Portuguese society, as well as growing labor and leftist unrest in Portugal and popular discontent with Portugal's relationship with Nazi Germany. This anti-German sentiment was reinforced after a German U-boat seized a Portuguese merchant vessel on May 26, 1944, forced its passengers into lifeboats, and held it hostage for nine hours. Three people died in the process of re-boarding the ship.[57]

Even with the embargo, Germany imported about 900 tons of Portuguese wolfram from the beginning of 1944, but the cut-off, combined with the Spanish agreement in May, began to take its toll. In September 1944 the U.S. Foreign Economic Administration reported to Congress that Germany was being forced to use inferior carbon-steel machine tools, reducing its industrial productivity significantly, and that the German Army had been using fewer of the high-efficient tungsten shells.[58]

Shortly after imposition of the embargo, Salazar agreed to allow the United States to begin surveys of the Azores with the objective of building an air base on the islands. Construction was delayed, however, as Portugal sought a "wide range of supplies and services in the strategic shipping and economic fields" and Allied permission for participation in the liberation from the Japanese of the former Portuguese colony of Timor.[59] After lengthy negotiations, Salazar signed an agreement on November 28, 1944, permitting construction and granting U.S. forces access to the air base for up to nine months after the end of the war. In a side note to the agreement, the United States approved Portuguese participation in the Timor campaign.[60]

F. The Beginnings of Safehaven in Portugal

The Allies pursued various initiatives to thwart the wartime neutrals, including Portugal, from allowing Germany to use looted monetary gold and other assets to finance

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[55] Aide-Mémoire from the Department of State to the British Embassy, May 18, 1944, *Foreign Relations*, 1944, vol. IV, pp. 111-113.

[56] Reports on the negotiations leading up to Salazar's decision and the Portuguese announcement of June 5 are ibid., pp. 125-132.

[57] Wheeler, "The Price of Neutrality: Portugal, the Wolfram Question, and World War II," *Luso-Brazilian Review*, vol. 23, No. 2, Winter 1986, pp. 100-111.

[58] "Report to Congress on Operations of the Foreign Economic Administration," September 25, 1944, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared by Division, Box 18; "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 155-164, ibid., Historical Monographs Prepared Outside the Division, Box 5.

[59] Hull, *Memoirs*, vol. II, p. 1343.

[60] The agreement and side letters are in 2 UST (pt. 2) 2124. See also *Foreign Relations*, 1944, vol. IV, pp. 27-84.

its war effort: the January 1943 London Declaration, the February 1944 Gold Declaration, and the August 1944 Bretton Woods Resolution VI. These declarations formed the legal basis for the Safehaven program. As Germany's military defeat became certain after D-Day, many in Washington, particularly at the Treasury Department and the Foreign Economic Administration (FEA), feared that the Nazis were planning to use Portugal, along with other former neutrals, as a possible "safehaven" for assets to be used to revive their cause after a German defeat. In 1946 the State Department estimated that approximately 50 million escudos (about $2 million) had been transferred as German mine owners liquidated their assets and invested the proceeds in Portuguese businesses to cloak them from the Allies.[61]

The U.S. Embassy in Lisbon began its Safehaven investigations in Portugal in August 1944. In the autumn a team headed by Samuel Klaus from the FEA and including Herbert Cummings from the State Department visited Portugal as part of a European-wide assessment of these operations.[62] In his report on the trip, Klaus complimented the Embassy's initial work (led at the time by Financial Attaché James Wood), and predicted a "measure of success" for the Embassy's efforts. Klaus believed that Portugal could serve as a financial center in any postwar Nazi machinations, an "international free money market...where gold may come to rest for the time being or where monetary transactions may take place in such a way as to conceal the real interests behind them." He also noted that the country's five largest banks were being used by German interests to "disguise...transactions which may [have] terminate[d] elsewhere," and should be a focus of any Safehaven inquiries.[63]

On October 2, 1944, the U.S. Embassy formally requested Portugal to implement measures to thwart Nazi Germany's use of looted gold and other assets as called for in the Gold Declaration and the Bretton Woods Resolution VI. Like the other neutrals, Portugal had been reluctant to trade its wolfram and other resources to Germany in exchange for Reichsmarks, which were difficult to convert on the international market. Instead, Portugal preferred to be paid in German goods through the Luso-German clearing agreement or in escudos or hard currency such as Swiss francs or gold. The Allies were certain that after early 1943 Germany was resorting to the sale of looted gold from the occupied countries to finance its trade.[64] When Portugal did not respond to the Embassy's request on looted gold, the United States, acting on the views of Treasury and FEA, advocated using direct threats such as economic sanctions. The British, with some

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[61] Albert Post to Surrey, "Memorandum on German Assets in Portugal, " June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946.

[62] *Foreign Relations,* 1944, vol. II, pp. 220-221.

[63] Memorandum from Klaus to Currie, Coe, and Cox, October 21, 1944, Franklin D. Roosevelt Library, Cox Papers, Lend Lease File, Box 104.

[64] *Foreign Relations,* 1944, vol. II, pp. 230-237; Albert Post to Surrey, "Memorandum on German Assets in Portugal," June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946. See *Preliminary Study on U.S. and Allied Efforts To Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II* (Washington, D.C., May 1997), p. 66. [Hereafter cited as the Eizenstat Report]

sympathy from the State Department, favored using moral persuasion.[65] Finally, in April 1945 all sides agreed on a joint approach that included Treasury and FEA's demands that Portugal and the other neutrals be required to freeze all Axis assets, conduct a census of these holdings, and subscribe to Bretton Woods Resolution VI. The Allies formally presented these demands to the Portuguese Government on May 7, 1945.[66]

After Germany's surrender on May 8, 1945, Portugal replied quickly to the Allied Safehaven demands. On May 14 the government enacted Decree Law 36400, freezing all German assets in Portugal, providing for a census of these assets, creating a licensing system for releasing them, prohibiting the trading of foreign currency notes, and establishing a penalty regime to enforce these provisions. The decree also included a statement of public adherence to the principles set forth in the Gold Declaration of February 1944 and Bretton Woods Resolution VI of August 1944. On May 23 the decree was extended to all Portuguese colonies.[67] Included in these frozen assets were the official State properties of the German Government in Portugal. Portuguese officials seized German Government buildings and their contents throughout Portugal and its colonies and, by early June, delivered them to the Joint Allied Committee on German Affairs in Portugal, established to oversee their liquidation. Included in these seized assets were 5,000 unidentified gold coins found at the German Legation in Lisbon in May 1945.[68]

The wartime Safehaven efforts in Portugal, as in other neutral countries, were replaced at the beginning of 1946 by the Allied reparations and restitution programs established at the Paris Reparations Conference, which concluded in January 1946. The Conference agreed that the United States, Britain, and France would represent the other Allies in negotiations with the wartime neutral states over the restitution of looted monetary gold and the liquidation of external German assets to be used for reparations and the support of the stateless victims of Nazism. Portugal agreed to begin its negotiations with the Allies in the fall of 1946.[69]

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[65] Margaret Clarke, "The Safehaven Project," Foreign Economic Administration Study #5, 1945, covers some of the interagency debate in pp. 121-130, RG 169, Records Assembled by the Historian, Material on the Safehaven Project , 1943-1945, Box 991. For more on the British-U.S. divisions, see Medlicott, *The Economic Blockade*, vol. II, pp. 622-629.

[66] FFC Monthly Report, April 1945, and FFC Monthly Report, May 1945, RG 131, Foreign Funds Control, Subject Files, Box 256.

[67] Albert Post to Surrey, "Memorandum on German Assets in Portugal, " June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946. See also "Draft of Sections of the History of Activities in Which the Treasury Department Participated with Respect to the Recovery and Distribution of Gold Looted by the Germans during the War and the Liquidation of German Assets Located Outside of Germany," January 29, 1952, by Robert J. Schwartz, RG 56, Acc. 66A-816, Special Subject Files, Box 1. Schwartz, a Treasury Department official involved in the postwar efforts to liquidate German external assets, also provided a copy in his letter of January 14, 1997, to Ambassador Eizenstat.

[68] Despatch 220 from Lisbon, June 8, 1948, RG 59, Decimal Files 1945-49, 800.515/6-848. The Joint Allied Committee was composed of one representative each from the three Allied Embassies in Lisbon.

[69] Treasury Department Report, "Safehaven-Portugal," July 26, 1945, RG 131, Foreign Funds Control, Subject Files, Box 346.

Before negotiations began, concerns arose in Washington about Portugal's implementation of the Decree Law freezing German assets. A June 1946 State Department report noted that the law excluded the Allies from the census and included a serious "loop-hole" that permitted the transfer of blocked assets to individuals for their "subsistence" and "the normal exercise of commercial and industrial activity." As a result, employees had been granted excessive living allowances, German firms continued to operate "without any serious handicaps," and much of Germany's assets had been dissipated. Moreover, the Portuguese census had failed to uncover any holdings the Allies had not already identified. The report claimed that these concerns had been communicated to the U.S. Embassy, but officials there did little to pressure Portugal to address them.[70]

G. Allied Estimates of German External Assets in Portugal

Allied estimates of German external assets in Portugal varied widely without detailed census data. In April 1945 the U.S. Embassy had put the total at $45 million. Three months later it revised the estimate to $30.8 million, admitting that $22.5 million of that amount was a "pure estimate...[based on] some facts but...subject to extreme change."[71] In October 1945 the FEA calculated about $40.8 million, admitting also that this amount was "based on a number of fragmentary reports" and therefore highly "tentative."[72]

In June 1946, in preparation for the upcoming Allied-Portuguese negotiations, the State Department estimated a total of $36.8 million (920 million escudos), excluding any looted items, such as gold or diamonds, that were destined to be returned to their owners.[73] According to the State Department analysis, the German assets fell into six categories. First, valued at $16 million (400 million escudos), were the German mining interests: two privately owned firms with links to large German steel companies, and a smaller concern controlled by a German State-owned enterprise in Spain known as SOFINDUS, the Sociedad Financiera y Industrial Lda. Second was $7 million (175 million escudos) in a blocked account for five German ships caught in Portuguese harbors at the start of the war. In 1943, with Allied consent, the Portuguese had purchased the ships from their private German owners, but unbeknownst to the Allies the German Government allegedly reimbursed the owners. This made the account a German State asset, depriving the former German owners of protections afforded private citizens under the Decree Law.

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[70] Albert Post to Surrey, "Memorandum on German Assets in Portugal," June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946.

[71] Safehaven Report, Lisbon, July 21, 1945, RG 131, Foreign Funds Control, Subject Files, Box 384.

[72] "German Economic Interests in Portugal," October 1945, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13.

[73] Albert Post to Surrey, "Memorandum on German Assets in Portugal," June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946.

A third category of assets consisted of the hundreds of concerns in which German firms were heavily invested, valued at $5 million (125 million escudos). German corporate giants such as I.G. Farben, Siemens, A.E.G., and Roechling, as well as lesser-known firms, had numerous subsidiaries in Portugal during the War and also owned significant shares of Portugal's cork harvesting, communications, transportation, and film industries. A fourth type were the German agricultural holdings in Portuguese colonies (mostly Angola), valued at $2.5 million (62.5 million escudos). A fifth was the approximately $5 million (125 million escudos) in personal and real property owned by individual Germans. And the last category, estimated at $1.3 million (32.5 million escudos), comprised German State properties, such as schools and Legation buildings and their contents.[74]

H. Beginnings of Postwar Allied Policy Toward German Looted Gold in Portugal

Both Germany and Portugal used Switzerland as an intermediary to facilitate their wartime gold transactions. When Germany needed escudos to purchase wolfram or other Portuguese goods, the Swiss National Bank would transfer gold from Reichsbank accounts to the account of the Bank of Portugal. This gold apparently went to the Reichsbank's "Escudo account" with the Bank of Portugal, which in turn credited a like amount of the escudos to two private banks, the Banco Espirito Santo and Banco Lisboa e Acores. These banks then deposited the escudo amounts to Germany's accounts with them. In 1943, almost 729 million escudos ($29 million) were reportedly transferred to Germany in this way.[75] Sometimes the Swiss National Bank transferred the gold directly; sometimes the Bank used the German gold as credit and deposited equivalent amounts of Swiss francs, which the Portuguese used to buy Swiss goods. Ultimately, much of this gold and currency was transported to Portugal. From 1939 to 1944 Portuguese domestic gold holdings increased by $67.5 million.[76]

The Allies also had evidence of a significant trade outside the Bank of Portugal. One of the largest institutions involved in this unofficial trade was the Banco Espirito Santo. According to an October 1945 FEA report, the bank served as the "German financial agent for wolfram operations," regularly advancing escudos to the Germans to

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[74] Treasury Department report, "Safehaven - Portugal," July 26, 1946, RG 131, Foreign Funds Control, Subject Files, Box 346, and Albert Post to Surrey, "Memorandum on German Assets in Portugal," June 19, 1946, RG 59, Decimal Files 1945-49, 800.515/6-1946.

[75] Despatch 28, April 30, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

[76] Draft memorandum from James Wood to Assistant Treasury Secretary White, December 7, 1945, ibid., Box 3 of 3; memorandum by Otto Fletcher attached to "Safehaven - Portugal," July 26, 1946, in RG 131, Foreign Funds Control, Subject Files, Box 346. Draft despatch 306, March 20, 1944, calculated Swiss National Bank deliveries of gold to Portugal between 1939 and 1943 at 123.7 tons, worth about $150 million; RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 3 of 3. One report indicated that Germany paid 10-15 percent of its clearing debts for wolfram in Swiss francs; memorandum from Wood to Baruch, November 19, 1945, ibid.

purchase wolfram in return for "gold and Swiss francs from the Reichsbank."[77] In August 1944 the Allies compelled the bank to cut its ties with the Reich, but the Germans transferred their accounts to the Banco Lisboa e Acores.[78]

Smuggling also brought significant amounts of gold coin and ingots into the country. In 1946 the former German Commercial Attaché in Madrid admitted to shipping almost $1 million in English gold sovereigns received from Berlin to the German Embassy in Lisbon, where they could be sold for three times their value in Spain. The coins were sent in small packages via the diplomatic pouch between 1943 and 1944, and the proceeds from their sale were converted into pesetas for the use of the Embassy in Madrid.[79] Another report indicated that at least 320 kilograms of gold ($360,000) had arrived by plane in June and July 1944 and were taken by German Legation cars to the Bank of Portugal where it was deposited in a "special account" in the name of the German Ambassador. According to the source, Bank directors had requested the Portuguese Ministries of Foreign Affairs and Finance to allow them to open the accounts. In addition, there were reports throughout 1944 of other dignitaries, such as the Spanish Ambassador to Portugal (brother of Spanish dictator General Francisco Franco), the Uruguayan Minister, and several Portuguese Legation officials in Germany and Vichy France, smuggling in "considerable quantities of gold, diamonds, bonds, banknotes and other valuables." Much of this smuggled loot was deposited in private banks, including the Banco Espirito Santo. The Allies also had reports of looted bars and ingots smuggled into Portugal in September 1944 "to build up a postwar credit for the Germans." Much of this gold was supposedly re-smelted into Portuguese bars.[80]

During the War, the Bank of Portugal, the only national institution officially allowed to trade in gold, began to dispose of its holdings in the face of the Allied warnings about trade with Germany. In 1943 Allied intelligence reports indicated that the Bank of Portugal exchanged up to 4 tons it held in the Swiss National Bank, believed to include gold obtained from Germany, for prewar gold stocks held in an account in Canada. In July 1943 the Bank of Portugal reportedly sold to Lisbon dealers gold bars bearing Reichsbank markings and swastikas; the exchange dealers intended to re-smelt these bars into smaller bars with Portuguese markings. The U.S. Embassy in Lisbon also obtained reports that in 1943 and 1944 the Portuguese and private goldsmiths re-smelted

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[77] "German Economic Interests in Portugal," October 1945, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13; Intelligence Report H5709, April 22, 1944, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 3 of 3. The FEA report claims that the Banco Espirito Santo was partially Swiss-owned, but a March 1998 letter from Ricardo Espirito Santo Salgado to a Swiss researcher indicates the bank was controlled by the Espirito Santo family.

[78] "German Economic Interests in Portugal," October 1945, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13.

[79] Letter from the U.S. Political Adviser for Germany to the U.S. Embassy in Lisbon, November 7, 1946, enclosing "Interrogation of Walter Becker, German Repatriate from Spain," RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

[80] Despatch 1061 from Lisbon, October 12, 1944, RG 59, Decimal Files 1940-44, 800.515/10-1244.

gold ingots the Bank of Portugal had received from France as well as bars bearing the marks of German-occupied countries.[81]

Beginning in 1944, and especially after the Allies issued their warnings against trafficking in looted gold and the German military situation began to worsen, the Bank of Portugal accelerated its efforts to sell its German gold. According to Allied intelligence reports, between June and September the Bank allegedly sold 3,387 kilograms of its German gold holdings ($3.8 million) at the Swiss National Bank.[82] In August the Bank of Portugal began selling 50-100 kilograms of gold a day to private concerns, reaching a one-day high of 300 kilograms ($340,000) in January 1945. These sales continued until February 1945 when, officially at least, they were formally ended.[83]

Allied requests to Portugal for information on its secret gold transactions were either ignored or evaded. Beginning in August 1945, U.S. Financial Attaché James Wood requested information from the General Secretary of the Bank of Portugal, the Portuguese Foreign Office, and the Bank's Vice Governor, but received no replies.[84] As late as May 1946, Bank of Portugal officials were denying that any monetary gold had been shipped from Germany to Portugal.[85]

In July 1946, in preparation for the upcoming negotiations with the Portuguese, Otto Fletcher of the State Department made a detailed assessment of Portugal's wartime gold transactions. Comparing the available data on German war acquisitions of looted gold, its sales to the Swiss National Bank, statements by Swiss Government officials, and War Department intelligence on truck shipments of gold, Fletcher deduced that Portugal acquired 123.827 tons of gold ($139.3 million) during the entire war period. According to a "very confidential" letter by a Swiss diplomat, 20.117 tons ($22.6 million) of this total was acquired by the Bank of Portugal from the Reichsbank's deposit with the Swiss National Bank and comprised "exclusively looted Belgian gold." Of the remaining 103.709 tons ($116.7 million), which Portugal acquired from the Swiss National Bank, Fletcher's evidence indicated that at a minimum 72 percent (or 74.67 tons, $84 million) had been looted by Germany from the occupied countries. Combining this figure with

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[81] Despatch 1061 from Lisbon, October 12, 1944, ibid.

[82] Despatch 1061 from Lisbon, October 12, 1944, ibid. This despatch also reported that in September 1944 the Embassy in Lisbon passed on an intelligence report that the Bank of Portugal transferred to the Portuguese Government nearly 16 tons of gold it had purchased from the Reichsbank and held in Portugal, and that, as a counterpart to this transaction, the Portuguese Government had transferred a like amount of gold, which it held in New York, to the Bank of Portugal's account at the Federal Reserve in New York. The records of the Federal Reserve Bank in New York contain no evidence that such a transaction occurred. This kind of transaction is unlikely given the U.S. Treasury licensing requirements governing all gold transactions in the United States at the time. (Letter from James R. Hennessy, Counsel, FRBNY, to William Slany, November 3, 1997)

[83] Wood to Assistant Treasury Secretary White, April 3, 1945, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

[84] Draft memorandum from James Wood to Assistant Treasury Secretary White, December 7, 1945, ibid., Box 3 of 3.

[85] "Memorandum on Gold Acquisitions by Portugal During the War," prepared by Otto Fletcher, July 2, 1946, attached to "Safehaven-Portugal," July 26, 1946, RG 131, Foreign Funds Control, Subject Files, Box 346.

the amount of Belgian gold, Fletcher argued that the Allies should demand 94.787 tons ($106.6 million). Fletcher believed his figures were modest, and took note of several military and intelligence reports of truck deliveries of as much as 400 tons of gold from Switzerland to the Bank of Portugal.[86] U.S. military investigators and Treasury Department analysts noted in another report that the Portuguese admitted, "in an official statement to the American Legation," purchasing 42 tons of gold from a German account at the Swiss National Bank and 66 tons from Switzerland "against payment of Swiss francs."[87]

I. Allied-Portuguese Negotiations on Looted Gold and German External Assets, September 1946-February 1947

Negotiations between the Allies (the United States, Britain, and France representing the Inter-Allied Reparations Agency (IARA)) and Portugal regarding the restitution of looted gold and the retrieval and disposition of German external assets began in Lisbon on September 3, 1946. The talks followed the Allied-Swiss negotiations of March-May 1946 and the Allied-Swedish negotiations of May-July 1946, both held in Washington. The Allied negotiators brought to Lisbon, and to the parallel talks in Madrid with Spain, the experience of these negotiations. Unlike the Swiss and Swedish negotiations, however, those with Portugal (and with Spain) were held away from Washington and were ultimately conducted on the Allied side by diplomatic representatives assigned to the Embassies in Lisbon. Initially the U.S. delegation was led by Assistant Legal Adviser for Economic Affairs of the State Department Seymour Rubin and Assistant Director of the Treasury Department's Division of Monetary Affairs Orvis Schmidt. The British delegation was led by Francis McCombe who had served, like Rubin, at the Allied-Swiss negotiations and headed the British delegation at the subsequent Allied-Swedish talks. Francois de Penafieu and Marcel Vaide led the French delegation.[88]

The Allied discussions with the Portuguese failed to result in a quick agreement and eventually stretched over years. Rubin remained only for the opening phase, which ended in late September 1946. He characterized the negotiations as friendly, but noted the "serious disagreement" between the two sides on the following key issues: 1) defining exactly what German assets would qualify for liquidation; 2) determining how much the Portuguese could claim for wartime losses against Germany; 3) deciding what role each

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[86] Ibid. According to the Swiss Independent Commission of Experts, "Gold Transactions in the Second World War: Statistical Review With Commentary," December 1997, pp. 14, 16, and 17, the Swiss National Bank sold to Portugal $104.2 million in gold, and the Reichsbank sold to the Portuguese National Bank via the Swiss National Bank $49.5 million in gold, a total of $153.7 million. According to an undated paper submitted to William Slany by the Swiss National Bank, Portugal purchased 86.7 tons of gold directly from the Swiss National Bank, and 48.9 tons from the Reichsbank deposit at the Bank, a total of 135.6 tons of gold ($152.6 million).

[87] Exhibit 2, attached to "Safehaven-Portugal," July 26, 1946, RG 131, Foreign Funds Control, Subject Files, Box 346.

[88] A complete list of all the delegates is in the negotiation minutes attached to despatch 1120 from Lisbon, September 23, 1946, RG 59, Decimal Files 1945-49, 800.515/9-2346.

side would play in overseeing liquidation; and 4) deciding how much gold, if any, Portugal would have to relinquish to the Allies.[89]

On the gold side of the negotiations, because the intelligence on Portuguese gold acquisitions during the War was unconfirmed, the Allied negotiators did not feel they had enough conclusive documentary evidence to demand more than 44.864 tons of gold ($50.5 million), the amount they alleged Portugal had acquired from Germany after 1942 when it became "common knowledge" that Germany had expended its own reserves and was relying on looted gold. In addition, the French, who were slated to get a portion of the amount recovered, pushed hard for a figure they believed the Portuguese would find reasonable. The Allied negotiators were willing to go as low as the 20.117 tons ($22.6 million) in looted Belgian gold acquired directly from a Reichsbank account at the Swiss National Bank, for which they had confirming confidential Swiss statements. The Portuguese argued that they had no evidence that the Germans had traded in looted gold. Furthermore, they wanted to be fully compensated for any gold they would be forced to relinquish if it proved to be looted, since Portugal had purchased it "in good faith." The two sides could only agree to the establishment of a Joint Subcommittee on Gold to review Bank of Portugal records, and formal negotiations were suspended until its report was received.[90]

The Portuguese participated reluctantly in the investigations of the Gold Subcommittee. In a September 27, 1946 note, Portugal continued to claim that it had received no looted gold and insisted that its cooperation with the Subcommittee did not signify acceptance of the Allies' premise that it had. Portugal's reluctance delayed the work of the Subcommittee. The Portuguese members allotted only a few hours a week to the investigation, turning what one U.S. member described as "two days'" work into five months of "detailed labor." In addition, they insisted that the report indicate only that certain bars "of concern to the Allied Delegations had been acquired by the Bank of Portugal," and not address whether they were looted. Portugal also refused to provide written records. Instead, the Portuguese representatives only verbally confirmed that the Bank of Portugal had acquired certain bars bearing the identifying marks the Allies provided. The Allies, in contrast, presented detailed evidence from a variety of sources, including captured Reichsbank and Prussian Mint records, showing from where gold had

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[89] Memorandum from Rubin to Ambassador, September 27, 1946, "A Report on the Progress of the Safehaven Negotiations to Date," ibid., 800.515/9-2746. A copy of the Allies' draft accord delivered on September 9 is in despatch 1105 from Lisbon, September 10, 1946, ibid., 800.515/9-1046. A copy of the Portuguese reply of September 17 was not found, but a summary of the major points was transmitted in telegram 841 from Lisbon, September 19, 1946, ibid., 800.515/9-1946. Minutes of the Fourth, Fifth, and Sixth meetings forwarded under despatch 1120 from Lisbon, September 23, 1946, ibid., 800.515/9-2346, and Seventh, Eighth, and Ninth Meetings forwarded under despatch 1129 from Lisbon, October 1, 1946, ibid., 800.515/10-146.

[90] Memorandum from Rubin to Ambassador, September 27, 1946, ibid., 800.515/9-2746; "Second Draft of Proposed Report to be Rendered to IARA or to the Individual Member Countries which have Claims for the Restitution of Looted Gold," ca. July 1948, ibid., Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 17.

been looted and how it was re-smelted by the Prussian Mint, bringing into question the validity of the Portuguese documentation.[91]

Intermittent discussions continued into early 1947.[92] On February 21, 1947, Portugal agreed to terms for the liquidation of German assets, but refused to implement the plan until the two sides reached an accord on gold. The agreement called for the liquidation of almost all assets owned by Germans "resident in Germany" during the War or "transferred to Portuguese territory" between 1933 and May 7, 1945, except for the assets of Nazi refugees, a total estimated value of about $36.8 million. The first 100 million escudos (about $4 million) of the proceeds would compensate "non-repatriable victims of German aggression." The next 50 million escudos ($2 million) would go to Portugal as a first installment toward its 140 million escudos (about $5.6 million) in wartime damage claims against Germany, reduced from Portugal's initial claim of 415 million escudos. Any proceeds realized thereafter from the liquidations would be divided 50-50 between the two sides, with the Portuguese portion not to exceed 180 million escudos (about $7.2 million). The accord also called for the Allies as signatories, or the "first legitimate German Government," to indemnify those proprietors affected by the liquidation. To oversee the liquidation, the parties agreed to create a three-man "Liquidation Commission," including one member appointed by the Allies, one by the Portuguese, and one selected by both.[93]

The accord also recognized the Allies' title to those "German State" assets that had been taken over by the Joint Allied Committee on German Affairs in Portugal in June 1945. Since then the Committee had been administering and liquidating these assets until June 1947 when it transferred its assets and responsibilities to the Allied Committee for German External Assets in Portugal, a three-member committee formed in January 1945 to handle all Safehaven matters. Since its establishment, the Joint Allied Committee on German Affairs in Portugal had located about 7.2 million escudos ($288,000) in cash, mostly in the German Legation in Lisbon, and liquidated 2 million escudos ($80,000) in movable property. It also identified 7 million escudos ($280,000) in real estate, none of which had been liquidated by June 1947. After incurring almost 2 million escudos in expenses, it turned over to the Allied Committee for German External Assets in Portugal about 7.2 million escudos.[94]

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[91] "Second Draft of Proposed Report to be Rendered to IARA or the Individual Member Countries Which Have Claims for the Restitution of Looted Gold," ibid.

[92] Updates on these intermittent negotiations are in telegram 969 from Lisbon, November 6, 1946, ibid., Decimal Files 1945-49, 800.515/11-646; despatch 1218 from Lisbon, November 19, 1946, ibid., 800.515/11-1946; and telegram 1067 from Lisbon, December 11, 1946, ibid., 800.515/12-1146.

[93] "Draft of Sections of the History of Activities in Which the Treasury Department Participated...," January 29, 1952, by Robert J. Schwartz, pp. 19-20, RG 56, Acc. 66A-816, Special Subject Files, Box 1. An unsigned draft of the accord is in RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 1 of 3. The letters appended to the accord are attached to an August 9, 1951, letter from Zumbiehl to Maddox, ibid.

[94] Despatch 220 from Lisbon, June 8, 1948, RG 59, Decimal Files 1945-49, 800-515/6-848. The Allied Committee for German External Assets in Portugal, which also included one representative from the U.S., U.K., and French Embassies in Lisbon, was later renamed the Allied Control Committee for German

J. Further Allied-Portuguese Gold Negotiations, March 1947-February 1948

The Subcommittee on Gold finally issued its report on March 19, 1947, concluding that the Bank of Portugal acquired 3,859 bars of gold (46.76 tons, worth approximately $52.6 million) between January 1, 1939, and October 31, 1945.[95] Of this amount, 43.95 tons ($49.4 million) were "of concern" to the Allies. One U.S. delegate, Robert J. Schwartz, felt there was conclusive proof that 38.45 tons ($43.3 million) matched the Allies' evidence for gold looted and re-smelted by the Germans.[96] Of the total of 46.76 tons, only 4 tons looted from the Netherlands National Bank was in its original form. The rest included 20.4 tons identified as re-smelted Belgian gold looted from France and 14.05 tons identified as re-smelted coins stolen from the Netherlands National Bank. The investigators could not trace the origins of 8.31 tons ($9.3 million), 5.11 tons of which appeared to be smelted from "miscellaneous bars...[and] coins," and 2.81 tons of which were unidentifiable. They made no effort to determine whether it was non-monetary gold stolen from the Nazis' victims.[97]

With the Subcommittee's report in hand, the Allies pressed for final negotiations on the gold issue. On March 29 they presented a note to the Portuguese Ministry of Foreign Affairs requesting talks, but the Portuguese refused.[98] Informal contacts continued into the summer, but by this time other aspects of U.S.-Portuguese relations overshadowed the negotiations. In July 1947 the State Department cabled the Embassy in Lisbon recommending compromise because there was little "possibility of persuading the Portuguese to restitute full quantity gold [from the March 1947 report]...since economy could not stand such loss."[99] In addition to its concern over Portuguese finances, the United States was preoccupied with ongoing negotiations for rights to station U.S. military aircraft at Lagens (also referred to as Lajes) air base in the Azores. These talks, which had broken off in September 1946, had resumed in June 1947. As it had during the War, the United States continued to view this base as an important strategic asset and one that, in the postwar period, had become critical to the defense of Europe against possible Soviet aggression.[100]

Also over the summer of 1947, the Treasury and State Departments worked to come up with a reasonable gold offer for Portugal. An August 29 memorandum indicated

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Affairs. It was also given responsibility for screening Germans traveling into and out of Portugal. (Letter from Wharton to Dunham enclosing copies of two memoranda, August 20, 1952, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3)

[95] "Report of Sub-committee for Gold," March 19, 1947, acquired from the Portuguese Embassy.

[96] "Draft of Sections of the History of Activities in Which the Treasury Department Participated...," January 29, 1952, by Robert J. Schwartz, pp. 21-22, RG 56, Acc. 66A-816, Special Subject Files, Box 1.

[97] Despatch 382 from Lisbon, "Transmitting Report on Portuguese Gold Negotiations," October 14, 1948, RG 59, Decimal Files 1945-49, 800.515/10-1448.

[98] Copy of Note attached to telegram 1438 from Lisbon, April 7, 1947, ibid., 800.515/4-747.

[99] Telegram 515 to Lisbon, July 19, 1947, ibid., 800.515/7-1947.

[100] Documentation on these negotiations is in *Foreign Relations*, 1947, vol. III, pp. 1019-1052.

that the two agencies had agreed on $40 million (35.546 tons), believing that this was the least the Allies could request without "running the risk of justified reproaches by the smaller claimant nations." But some State officials, most notably Ambassador John C. Wiley, argued that the figure was too high and would pose an unacceptable risk "before the security negotiations" were completed.[101] A September 10 instruction to the Embassy left the decision to Wiley, but advised, "In view of imminent resumption of Azores talks, difficulties we will encounter with Portuguese in both negotiations and likelihood of Portuguese associating these two problems, we have assumed [that approaching the Portuguese at the Ambassadorial level]...should be held in abeyance until conclusion Azores negotiations permits adequate pressure on Portuguese to bring satisfactory gold settlement."[102]

Wiley decided to proceed with negotiations in November.[103] Based on the evidence from the Gold Subcommittee's March 1947 report, the Allies requested 38.331 tons of gold ($43.1 million). The Portuguese rejected the figure and maintained their arguments from the previous September.[104] On December 13 the Portuguese delegates suggested informally that they were considering making an offer of about 4 tons of gold without compensation and 11 additional tons covered out of the liquidation of German assets, a total of 15 tons ($16.9 million). This prompted a series of meetings in Washington between State and Treasury officials, as well as consultations with the Allies. Both agencies rejected the proposal and agreed that 25 tons was the minimum they could accept without antagonizing the Inter-Allied Reparations Agency (IARA) and the Swedes and Swiss who had settled for much less favorable terms in their accords with the Allies.[105] Britain and France indicated they were willing to go as low as 12 tons. On December 19 the State Department instructed the Embassy to counter with 38 tons and retreat to an "absolute minimum" of 25 if necessary. As an incentive for Portugal, the State Department recommended revising the February 1947 agreement on assets so that

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[101] Memorandum from Fletcher to Baker (OE), "Portuguese Negotiations on Looted Gold," August 29, 1947, RG 59, Decimal Files 1945-49, 800.515/8-2947; memorandum from Schmidt to Surrey, August 28, 1947, RG 56, Acc. 66A-816, Records of the Office of the Assistant Secretary for International Affairs (OASIA), Division of Monetary Research, FFC, Box 2.

[102] Telegram 671 to Lisbon, September 10, 1947, RG 59, Decimal Files 1945-49, 800.515/9-1047.

[103] Telegram from Lisbon, November 12, 1947, ibid., 800.515/11-1247; despatch 265 from Lisbon," November 17, 1947, ibid., 800.515/11-1747; letter from Wiley to Sam Reber (WE), December 23, 1947, enclosure to ibid., 800.515/1-2048; letter from Hanely to Dunham (WE), December 12, 1947, ibid., 800.515/12-447.

[104] "Draft of Sections of the History of Activities in Which the Treasury Department Participated...," January 29, 1952, by Robert J. Schwartz, pp. 21-22, RG 56, Acc. 66A-816, Special Subject Files, Box 1; airgram A-376 from Lisbon, December 5, 1947, RG 59, Decimal Files 1945-49, 800.515/12-547; letter from Hanely to Dunham, December 4, 1947, ibid., 800.515/12-447; despatch 267 from Lisbon, "Safehaven Report," ibid., 800.515/11-1847; memorandum from Marcel Vaide to Allied Committee for German External Assets in Portugal, November 25, 1950, ibid., Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 18.

[105] Memorandum to Files by Smith, with attachments, December 18, 1947, RG 56, Acc. 70A-6232, Records of the Office of the Assistant Secretary for International Affairs (OASIA), Division of Monetary Research, Box 22.

Portugal would receive all the proceeds of the liquidation after distribution of the first 150 million escudos, instead of just half.[106]

Despite these concessions, Portugal rejected the offer and responded, unofficially, with an offer of 3.9 tons (about $4.4 million) with full indemnification. The Allies' unanimity collapsed, and the United States canceled all further negotiations out of fear that they would "interfere" with the Azores talks, then nearing conclusion. Ambassador Wiley cautioned against proceeding "on a crusading rampage." Noting that Portugal appeared near an Azores agreement on U.S. terms, he asked, "Why, therefore, are we 'demanding' so much more [than the British and French recommendation] when we stand to gain absolutely nothing for our efforts."[107]

K. U.S.-Portuguese Agreement on the Azores, February 1948

The importance to the United States of the access agreement to air bases on the strategic Azores islands inhibited U.S. negotiators from pressuring Portugal in the negotiations over German external assets and gold. As postwar Cold War tensions increased, the islands' strategic importance became more apparent to U.S. military planners. In October 1945 the Joint Chiefs of Staff deemed the Azores one of nine "Primary Base Areas," defined as a strategic location "comprising the foundation of a base system essential to the security of the United States, its possessions, the Western Hemisphere, and the Philippines and for the projection of military operations."[108] In May 1946 a new short-term treaty was concluded in which the United States and Britain turned over ownership of the two air bases, which they had occupied since 1943-1944, to Portugal, which in turn granted them continued access through December 7, 1947.[109] In June the Chiefs, based on their view of the "course of events of the last six months," listed the islands as one of three locations of "outstanding importance" and advocated obtaining long-term base rights.[110] The State Department approached Portugal for such a long-term arrangement, but the negotiations broke down in September over Portuguese demands limiting U.S. access.[111]

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[106] Telegram 907 to Lisbon, December 19, 1947, ibid.

[107] Wiley to Reber, December 23, 1947, RG 59, Decimal Files 1945-49, 800.515/1-2048; Despatch 328 from Lisbon, December 16, 1947, ibid., 800.515/12-1647; airgram A-121 from Lisbon, March 19, 1948, ibid., 800.515/3-1948; memorandum from Schwartz to Files, January 19, 1948, RG 56, Acc. 66A-155, Records of the Office of the Assistant Secretary for International Affairs (OASIA), Division of Monetary Research, FFC, Box 70.

[108] Office of Joint History, Office of the Chairman of the Joint Chiefs of Staff, *History of the Joint Chiefs of Staff, The Joint Chiefs of Staff and National Policy, 1945-1947* (Washington, D.C., 1996), vol. I, p. 144.

[109] *Foreign Relations*, 1947, vol. III, pp. 1019-1022. The 1946 agreement is in 2 UST (pt. 2) 2201.

[110] *Foreign Relations*, 1947, vol. III, pp. 1174-1177. This revision was part of series of State-War-Navy Coordinating Committee documents included in the volume. The documents make clear that the "course of events" concerned the West's growing conflict with the Soviet Union. See ibid., pp. 1165-1177.

[111] Ibid., 1946, vol. I, pp. 1112-1117, 1155; ibid., 1947, vol. III, pp. 1021 and 1041.

The Joint Chiefs of Staff continued to insist that a longer-term arrangement was vital to U.S. security, and the State Department began talks again with the Portuguese in July 1947. On February 2, 1948, the two sides signed a five-year access agreement, retroactive to December 2, 1947.[112] For the first three years of the agreement, the United States was guaranteed access to Lagens air base and could at any time abrogate the agreement and relinquish the facility to Portugal. For the last two years of the treaty, Portugal had the option to "denounce" the agreement with three months' notice and reserved the right to offer analogous terms of access to Britain.[113]

L. Portuguese Assets in the United States

By 1948, with access to the Azores dominating U.S. interests in Portugal, the Allied negotiators in Lisbon searched for ways to pressure the recalcitrant Portuguese on gold restitution and the distribution of German external assets. The one possible bargaining chip that remained were the Portuguese assets in the United States, valued over $63 million, frozen since the beginning of World War II.[114] In August 1946 Treasury Secretary John Snyder had authorized the negotiators to use the possibility of releasing these funds as an incentive in the negotiations, but it had not become a major issue in the discussions.[115]

On February 2, 1948, Secretary Snyder sent a public letter to Senator Arthur Vandenberg, Chairman of the Senate Foreign Relations Committee, proposing that these assets be transferred to the Justice Department's Office of Alien Property for a census within three months. Snyder concluded the letter: "Spanish and Portuguese assets are still blocked pending completion of the current negotiations...covering looted gold and German assets....If the negotiations are not completed...within the 3-month period [they will] remain blocked pending the conclusion of the negotiations."[116]

When the Portuguese press published a French translation of this statement that made it appear that the assets would be blocked permanently, Ambassador Wiley reported that "Salazar and Foreign Minister are extremely disturbed over this 'unfriendly act' so immediately after signing Azores agreement." Noting that Snyder's statement had "created a serious problem in our relations" with Portugal, he added that "if there ever was a moment when we should be seeking a gesture of appreciation to Portuguese...in view of what we have received in the Azores agreement, certainly this is it." Wiley recommended releasing all the frozen assets that had no readily apparent German interests "immediately."[117]

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[112] Ibid., pp. 1019, 1021, 1025-1052.

[113] The text of the agreement is in 2 UST (pt. 2) 2266.

[114] Memorandum from Surrey (Le/E) to Thorp (A-T), February 5, 1948, RG 59, Decimal Files 1945-49, 800.515/1-2348.

[115] Memorandum from Foley to Secretary Snyder, Truman Library, John Snyder Papers, Box 18; *Foreign Relations*, 1948, vol. III, pp. 995-996.

[116] A copy of Secretary Snyder's letter is attached to memorandum from Surrey (Le/E) to Thorp (A-T), February 5, 1948, RG 59, Decimal Files 1945-49, 800.515/1-2348.

[117] *Foreign Relations*, 1948, vol. III, p. 995-996.

The State Department desired to maintain a positive U.S.-Portuguese relationship because of the importance of both the Azores agreement and overall European recovery. A May 1948 internal memorandum to the Secretary of State noted that "the present objective of US policy is to maintain and improve the existing cordial relations with Portugal and to encourage [its] cooperation in the economic and political rehabilitation of Western Europe." In addition, the five-year Azores agreement signed in February 1948 was an "interim arrangement" and the Joint Chiefs of Staff were still interested in long-term base rights.[118] Also at stake was concern for the postwar European recovery and U.S. moral commitments to the victims of Nazi Germany. In guidance sent to the Embassy in Lisbon in August, the State Department acknowledged the benefit to relations with Portugal of releasing the assets, but recommended caution about the timing of such a move, wanting to "avoid any suggestion that Portugal's intransigence...has earned her the premium of unblocking."[119]

The Treasury and State Departments continued to debate the issue through the summer of 1948. Finally, on August 25 Under Secretary of State Robert Lovett wrote to Treasury Secretary Snyder that both the Department and the Embassy in Lisbon had concluded that the "overriding political and strategic considerations of our foreign policy make it essential" that the Portuguese assets be released. A week later Snyder conceded and changed the licensing procedures for these assets, effectively unblocking them.[120] Thus, Allied leverage against Portugal was lost.

M. Continued Efforts at an Allied-Portuguese Agreement

In the spring of 1948, after conclusion of the Azores access agreement, the United States decided to reopen the stalled negotiations with Portugal, and Treasury and State Department officials began debating a renewed strategy. State advocated pressing Portugal to begin the liquidation of assets in accordance with the February 1947 agreement while discussions on gold continued. Treasury argued that an interim agreement would only reduce Portuguese willingness to bargain on gold, and proposed offering to lift the freeze on Portugal's U.S. assets, which was still under debate, and possibly increase the Portuguese portion of the liquidation proceeds in exchange for a reasonable settlement including gold. In April the agencies decided to offer Portugal all the proceeds from the liquidation of German agricultural holdings in Portuguese colonies, in exchange for 15 tons of gold ($16.9 million), a figure the Portuguese had offered on December 13, 1947. If the Portuguese refused, the matter would be referred to the IARA for resolution.[121]

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[118] Ibid., p. 999.

[119] Ibid., p. 1000.

[120] Ibid., pp. 1000-1002 and footnote 3.

[121] Memorandum from Southard to Ness, April 7, 1948 and Memorandum to Files, April 21, 1948, in RG 56, Acc. 70A-6232, Records of the Office of the Assistant Secretary for International Affairs (OASIA), Division of Monetary Research, Box 22; memorandum from Southard to Ness, April 5, 1948, ibid., Acc. 67A-1804, Legal Records, Box 22.

At the Conference on Economic Security held in Paris April 26-May 7, 1948, the United States gained Allied concurrence with the plan, but the request for gold was reduced to 14.6 tons ($16.4 million). On May 19 the U.S., British, and French Embassies in Lisbon presented identical notes to this effect to the Portuguese Foreign Minister.[122] On July 8 Portugal rejected the offer, maintaining its "good faith" argument, but formalized its proposal to turn over the 328 gold bars (3.9 tons or $4.4 million) of Dutch gold that the Subcommittee on Gold determined had not been re-smelted. Portugal claimed these were the only bars the Allies could prove had been looted. In exchange, the Portuguese asked that their initial installment of proceeds from the liquidation of German assets be increased from 50 to 100 million escudos ($2 to $4 million), the maximum due them be increased from 180 million escudos to an amount sufficient to cover the cost of the 3.9 tons of gold, and their share of the proceeds after the initial distributions be increased from 50 to 70 percent.[123] On February 2, 1949, the Allies rejected the Portuguese offer as "entirely inadequate and therefore unacceptable," and threatened to refer the issue to the IARA.[124]

On February 17, 1949, the United States approached the Portuguese with a plan to implement the February 1947 agreement on the liquidation of German assets, while the two sides continued their discussions on gold. Both the United States and Portugal were concerned that the assets were quickly losing their value and little would be recouped by the time an understanding could be reached. The Portuguese accepted and on April 21, 1949, promulgated Decree Law 37377, permitting the liquidation to begin. In August the law was extended to German agricultural holdings in Portuguese colonies. By November the Portuguese had established the three-person "Liquidating Committee" to oversee the process, as well as a "Special Tribunal" to handle individual appeals called for in the 1947 agreement. The proceeds were to be placed in special blocked accounts until a final agreement was reached.[125]

[122] Letter from Rubin to Secretary of State enclosing a "Classified Report of the Chairman of the United States Delegation to the Conference on Economic Security at Paris, France–April 26 to May 7, 1948," RG 59, Decimal Files 1945-49, 800.515/6-1148. The May 19 note actually requested an amount not "less than a third of the total" of the "43,829 kilograms of fine gold" that the Allies felt they had proven was looted. This figure differs from the 43.95 fine metric tons listed in the March 1947 Gold Subcommittee report and no record has been found explaining the difference. However, the note indicates that the Allies were seeking not less than 14.6 fine metric tons, about one-third of either figure. See despatch 199 from Lisbon, ibid., 800.515/5-2048; telegram 282 from Lisbon, May 20, 1948, ibid., 800.515/5-2048; telegram 293 from Lisbon, May 25, 1948, ibid., 800.515/5-2548.

[123] Despatch 265 from Lisbon, July 16, 1948, ibid., 800.515/7-1648; despatch 382 from Lisbon, October 14, 1946, ibid., 800.515/10-1448.

[124] Copy of note #35 from the British Embassy to the Portuguese Foreign Office, February 2, 1949, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 1 of 3.

[125] Airgram VI from Lisbon, February 24, 1949, with attached translation of February 26 Portuguese acceptance, ibid.; despatch 130 from Lisbon, May 6, 1949, RG 59, Decimal Files 1945-49, 800.515/5-649; "Working Paper on Reparations Problems; Status of Safehaven Programs in Countries not Members of IARA," April 6, 1951, RG 56, Entry 66A-1039, Miscellaneous Committee Records, Box 62.

The Decree Law created a complex process and infrastructure for handling the liquidations. An office in the Portuguese Finance Ministry was placed in charge of identifying concerns that qualified for liquidation and a tripartite group, the Allied Committee for German External Assets in Portugal, had the right to consult on and approve these decisions. An October 1950 Allied study of the process found that the Portuguese were fulfilling their commitments but unnecessarily slowly and methodically, demanding excessive proof of German ownership. The study also found that the procedure for notifying owners whose assets were slated for liquidation was laborious and time-consuming and the guidelines for appealing the decisions were too simple. As a result, almost all of the more than 200 owners notified by October 1950 had appealed, and few German assets had been liquidated.[126]

The delays had direct financial repercussions. In November 1949, in a paper prepared for Secretary Acheson's meetings on Germany with the British and French Foreign Ministers, the State Department estimated the total German assets in Portugal at 625 million escudos ($21.7 million), down markedly from the estimates at the start of the negotiations in 1946. In commenting on the state of the negotiations with all the neutrals, the paper noted: "In light of the failure of the Allies to realize almost anything...since the war and the tortuous negotiations which have been carried on...it is doubtful whether anything [close to the projections at that time] will ever be forthcoming."[127]

The estimates of German assets in Portugal continued to decrease. By April 1951 the State Department estimated that the value of the assets had depreciated to 400 million escudos ($13.7 million). Only German State or quasi-official assets had been nearly completely liquidated, netting almost 43.9 million escudos (about $1.5 million). Of this amount, the Allied Committee for German External Assets in Portugal, which took control of the assets in June 1947, had liquidated 17.4 million escudos (about $595,000), 7 million escudos of which (about $239,000) it advanced to the United States to purchase the German Legation in Lisbon. The United States was expected to pay back this sum out of its share of the final settlement with Portugal. The remaining 26.5 million escudos (about $905,000) were the proceeds from quasi-official properties liquidated by the Liquidating Commission. The Allies also estimated that there were 27.9 million escudos (about $953,000) in German assets in Portugal's colonies, but the Portuguese had never provided enough information on these assets to be certain.[128]

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[126] Report of the Allied Committee for German External Assets, February 15, 1949, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 1 of 3; memorandum from Marcel Vaide to Allied Committee for German External Assets in Portugal, November 25, 1950, RG 59, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 18.

[127] "History of the Reparations Problem," GEC D-3/1, November 2, 1949, and "Statistical Data on German Reparation Receipts Other Than Receipts From Eastern Europe and the Soviet Zone," November 1, 1949, both ibid., Executive Secretariat, Conference Files 1949-1963, CF 1 to CF 8, Box 1. Documentation on the meeting, which focused on the program for dismantling German industrial plants, is in *Foreign Relations*, 1948, vol. III, pp. 294-430.

[128] Despatch 131 from Lisbon, August 20, 1951, RG 59, Decimal Files 1950-54, 262.0041/8-2051; Report by the Allied Committee for German External Assets in Portugal, "German Assets in Portugal, Statistical Survey as of September 15th, 1951," September 15, 1951, ibid., Box 1049 [no decimal number].

N. Frustrated Efforts at a Settlement, 1949-1952

With German assets quickly losing their value and no final settlement on gold in sight, in November 1949 the Allies approached Portugal with an offer to submit the negotiations to international arbitration. After a delay by the State Department to avoid interfering with the ongoing Azores talks,[129] Ambassador Lincoln MacVeagh presented a démarche to Portuguese Foreign Office representative Dr. Faria on May 26, 1950. The démarche recommended submitting the case to the International Court of Justice in The Hague and advised that the Allies would demand the full 43.95 tons of gold ($49.4 million) identified as possibly looted in the March 1947 Gold Subcommittee report. Faria commented that the "whole issue...[was] very much out of date, the world economic situation having greatly changed since its inception." Faria expected a negative reply from Salazar who would "decide the Portuguese attitude."[130] The Portuguese ignored the proposal as well as several subsequent démarches.[131]

On July 17, 1951, the State Department cabled the Embassy in Lisbon that it was willing to settle on Portugal's terms: "Department is anxious to eliminate as rapidly and to the fullest extent possible time consuming and now out-dated operations such as German external property problems still hanging over as deadwood from World War II." Underlying this policy change was the "overriding importance of politico-military objectives" and the need to "relegate other matters to a...subservient [position]."[132] By 1951 Portugal had become a full partner in the military and economic organizations established to strengthen Western Europe against possible Soviet aggression: the North Atlantic Treaty Organization, the European Payments Union, and the Organization of European Economic Cooperation. The United States was also negotiating with Portugal a revision of the 1948 Azores agreement to make it coterminous with the North Atlantic Treaty, and had signed a Mutual Defense Assistance Agreement on January 5, 1951, opening the way for U.S. military assistance.[133]

Based on these priorities and considerations, the State Department, after consultation with the British, recommended accepting the Portuguese July 1948 offer to turn over 3.9 tons of looted Dutch gold ($4.4 million), for which Portugal would be fully reimbursed out of the proceeds of liquidation of German assets. The Allies would also

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No documentation has been found that the United States reimbursed the Allied Committee for the 7 million escudos advanced for the purchase of the German Legation. A letter from the Allied Committee to the U.S. Embassy in Lisbon, July 30, 1956, enclosed a "trial balance" sheet, which listed a balance of 12.2 million escudos, including an outstanding debit of 7 million escudos; RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 1 of 3.

[129] Telegram 4217 to London, November 23, 1949, RG 59, Decimal Files 1945-49. [Decimal number not legible, but assume it is 800.515/11-2349.]

[130] Despatch 395 from Lisbon, May 27, 1950, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

[131] A draft note to the Netherlands dated November 4, 1952, indicated that Portugal had not yet replied to the offer, ibid.

[132] Airgram A-9 to Lisbon, July 17, 1951, RG 59, Decimal Files 1950-54, 262.0041/7-1751.

[133] The text of the Mutual Defense Agreement is in 2 UST (pt. 3) 438. The text of the Azores access agreement of September 1951 is in 5 UST (pt. 3) 2263.

offer a number of administrative compromises intended to expedite the liquidation process.[134]

The State Department did not begin vetting the proposals within the government until fall 1951, after a renewal of the access agreement to the Azores was concluded on September 6, 1951.[135] The proposals were discussed at a State-Treasury meeting on October 11. State claimed that "overriding political considerations" necessitated accepting the Portuguese offer of 3.9 tons of gold ($4.4 million).[136] Treasury advocated turning the negotiations over to the IARA, so that the various claimant countries could make their demands directly to Portugal. The State Department, however, did not believe this option was feasible, arguing that the Netherlands had explicitly asked the Allies to continue their efforts to negotiate on its behalf and that the British and French would not agree, reluctant to acknowledge that their efforts to date had failed.[137]

The State Department also wished to settle with Portugal before the Allies reached an accord with the Federal Republic of Germany in their ongoing "contractual negotiations." In September 1951, at the Washington Conference of Foreign Ministers, the U.S., British, and French Foreign Ministers instructed the Allied High Commissioners in Germany to begin discussions with Bonn on "contractual" arrangements that would end the postwar military occupation of the country. Secretary Acheson noted in his memoirs that these negotiations were part of the Allies' effort to integrate the Federal Republic into the Western European economy and the European Defense Community by clothing it with "as many of the attributes of sovereignty as we safely could in view of the situation in East Germany."[138]

One aspect of the contractual arrangements was how Germany would honor future reparations agreements with the former neutrals. The Foreign Ministers specifically instructed the Allied High Commission to "take into account potential allied [reparation] requirements in respect of Portugal, Switzerland and Austria," the three countries with which the Allies did not have final agreements at the time.[139] In the case of Portugal, under the 1947 accord either the Allies or the Federal Republic could be liable for indemnifying the owners of liquidated assets, a financial burden that the State Department felt the Allies should avoid. State, therefore, wanted the accord revised to make West Germany the responsible party, and felt that if an immediate agreement could be reached with Portugal that included this change, the Allies would be in a better bargaining position in their contractual negotiations with the Germans.[140]

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[134] Airgram A-9 to Lisbon, July 17, 1951, RG 59, Decimal Files 1950-54, 262.0041/7-1751.

[135] Text of the agreement is in 5 UST 2263.

[136] Memorandum to Files, October 12, 1951, RG 56, Acc. 70A-6232, Legal Records, Box 22.

[137] Unsigned memorandum to Ambassador MacVeagh, October 23, 1951, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3.

[138] Acheson, *Present at the Creation*, pp. 713-717. See also *Foreign Relations*, 1951, vol. III, Part I, pp. 1163-1308. The Federal Republic of Germany was established in 1949.

[139] Ibid., p. 1204.

[140] Unsigned memorandum to Ambassador MacVeagh, October 23, 1951, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3. Ultimately,

The Treasury Department ultimately agreed to "go along" with State's plan if Treasury received a letter "signed at the Assistant Secretary level," indicating that there were "political considerations which warrant a settlement...and that any agreement...would not result in claims against" the United States. Treasury also wanted the Netherlands, whose gold made up a sizable portion of the Portuguese cache, to approve the plan and the assurances that the July 1948 Portuguese offer was still open.[141] State agreed, and on October 26, 1951, Acting Assistant Secretary for European Affairs James Bonbright sent a letter to this effect to Treasury Secretary Snyder, along with a memorandum from U.S. Ambassador Lincoln MacVeagh noting his concurrence in the proposal. MacVeagh also noted that reaching a settlement was of the utmost importance, considering the "NATO concept and the cooperative attitude of the Portuguese in the negotiations regarding the Azores."[142]

State Department and British and French Embassy officials met on August 6, 1952, in Washington to discuss the U.S. plan. All three parties endorsed it and agreed to notify the Netherlands immediately of their decision. The British, however, were concerned that the new agreement would result in a 20 percent reduction in the liquidation proceeds slated for the IARA, and argued that if the IARA were expected to take a cut, "it would seem equitable at least to reduce proportionately the IRO share," which would go to refugees. Both France and the United States strongly objected on moral grounds. The British representative agreed to report their objections to his government. All three decided to consult their Embassies in Lisbon to determine how best to approach the Portuguese and whether their July 1948 proposal was still valid.[143]

O. Negotiation of a Final Agreement, 1952-1958

The Allies made their approach to Lisbon in early December 1952, but received no response.[144] Prompted by increasing IARA complaints about the neutrals'

Germany signed a contractual agreement with the Allies, which included the future reparations agreement. See *Documents on Germany, 1944-1985*, pp. 379 and 424.

[141] Rosenson (MN) to Peterson (WE), attached to RG 59, Decimal Files 1950-54, 262.0041/10-1251.

[142] MacVeagh's October 24, 1951, memorandum and Treasury's November 15 response to Bonbright's letter, written by Director of the Office of International Finance George Willis, are attached to ibid., 262.0041/10-1251. A copy of the October 26 letter from Bonbright to Snyder is in RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 2 of 3. Willis' response refers to Bonbright's letter on November 1, not October 26, but no record of a later draft was found.

[143] Memorandum of conversation, August 6, 1952, ibid. The Embassies eventually agreed. The U.S. Embassy's position on the proposal is in despatch 147, September 16, 1952, ibid. The response of the Allied Committee on German External Assets and the British and French Embassies in Lisbon is in telegram 200 from Lisbon, November 22, 1952, ibid.

[144] U.S. officials met with Portugal's Ambassador in Washington on December 8, 1952. (Memorandum of conversation, December 8, 1952, ibid.) However, according to two later documents, the approach was made on December 5; see "Conference on German External Assets and Looted Gold - May 1953," May 15, 1953, RG 59, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 15; "Tripartite Meeting on German External Assets and Looted Gold, 6-21 January 1953," NARA, RG 43, Records of International Conferences, Commissions, and Expositions, Records of

intransigence, Allied representatives met again in Washington in January 1953. Discussion of Portugal dominated the meeting. Of particular concern to the IARA was the possibility of giving up from its proceeds enough funds to make up the agreed Portuguese contribution of 100 million escudos ($4 million) to the $25 million fund for refugees established in January 1946 at the Paris Reparations Conference. The Allies agreed to set aside 17,205,600 Swiss francs (about $4 million) of the IARA's portion of the liquidation settlement then being negotiated with Switzerland toward Portugal's portion. They would make up any shortfalls from their own funds if no settlement with Portugal was reached. To pressure the remaining neutrals, and especially Portugal, into an agreement, the Allies decided to publish a statement listing which wartime neutrals had not settled and give the Portuguese until April 1 to accept their December 1952 offer; thereafter, they would turn the responsibility for retrieving looted gold to the IARA countries and provide them technical assistance in their efforts.[145]

The note was finally sent to the Portuguese Government on April 1, 1953, and before the end of the month, the Portuguese consented in principle. In May 1952, however, the Allies and West Germany had reached an agreement in their contractual negotiations in which Germany assumed responsibility for compensating the former German owners of liquidated assets.[146] In view of this new arrangement, Portugal decided to seek a "global settlement." Both sides agreed to resume talks in May on two tracks: Allied-Portuguese negotiations and German-Portuguese talks to work out a final settlement of Portugal's wartime claims.[147] The Allied-Portuguese negotiations ended on June 24, 1953, with Portugal agreeing to deliver 100 million escudos ($4 million) to the IRO, 75 million escudos ($3 million) to the IARA, and 3.998 tons of gold ($4.5 million) to the Tripartite Gold Commission. The agreement, however, was contingent on Portugal reaching an agreement with Germany.

The German-Portuguese talks, held October 1954-May 1955, ended without a final settlement. Germany insisted that the former owners of the liquidated properties

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Meetings of the Council of Foreign Ministers and Related Conferences, 1945-1949, Box 197. No other documentation was found.

[145] "Tripartite Meeting on German External Assets and Looted Gold, 6-21 January 1953," ibid.

[146] The May 26, 1952, contractual agreement, entitled *Convention on Relations Between the Three Powers and the Federal Republic of Germany and Related Conventions*, was published by the Office of the Executive Secretary of the U.S. High Commissioner for Germany. The 1952 convention never came into force because the French National Assembly refused to ratify it. An amended convention was signed on October 23, 1954, and came into force on May 5, 1955. The amended version contained no changes to the relevant paragraphs on German external assets; for text, see *American Foreign Policy, 1950-1955: Basic Documents,* vol. I, pp. 557-607.

[147] "Conference on German External Assets and Looted Gold - May 1953," May 15, 1953, RG 59, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 15; *Inter-Allied Reparations Agency: Final Report to Member Governments*, September 1961 [hereafter cited as *IARA Final Report*]. An unpublished version of the report, "Final Report to the Governments of France, the United Kingdom of Great Britain and Ireland, and the United States of America of the Inter-Allied Reparation Agency on German enemy assets in neutral countries and other territories," November 5, 1949, is in RG 84, Embassy Brussels, Files of the U.S. Delegation to the Inter-Allied Reparations Agency (IARA), German External Assets, 1945-1955, Classified IARA Subject File, Box 1.

contribute one-third the value of their assets toward the government's obligation, and all parties agreed that not enough could be raised in this way to meet the terms of the 1953 Allied-Portuguese accord. The two sides did agree to fix the total value of German assets in Portugal at 400 million escudos ($13.9 million at that time). This figure would be used as the basis for the final distribution of the proceeds. They also agreed that Portugal's claims against Germany would be increased to 250 million escudos ($8.7 million).[148]

U.S., British, and French negotiators met in London in January 1956 to find a way to resolve the deadlocks with Portugal and Spain that were holding up a final settlement with the IARA and IRO. To facilitate an agreement with Portugal, the Allies decided to reduce their demand for 175 million escudos in liquidated German assets to 75 million escudos, but still require a minimum of 3.998 tons of gold. They also resolved to hold a five-power conference to work out a global settlement. At the time, a total of 248.7 million escudos ($8.6 million) had been liquidated. The Allies believed the remaining assets would yield 406 million escudos ($14 million). The Portuguese estimated the value of remaining assets at 156 million escudos ($5 million); the Germans estimated the value at 90 million escudos ($3 million).[149] In April 1956 the Allies and Germans agreed to re-value the German assets in Portugal at 437.5 million escudos ($15.2 million at that time), giving Germany a larger pool from which to negotiate.[150]

On October 15, 1956, all five parties—the United States, Britain, France, Portugal, and West Germany—met together in Lisbon for the first time. An Allied report noted that during the talks, Portugal "refused to make any contribution to a settlement," and that Germany, because of an earlier agreement reached with Sweden on Swedish claims, felt it was "in no position to resist the Portuguese demand[s]."[151] The negotiations grew increasingly contentious, and agreement was not reached until after the parties had agreed to end the talks on November 2. In the final accord, Portugal agreed to pay the "Three Powers" 12 million escudos ($418,000) from the liquidation of German assets and "132.5 million...in escudos convertible into foreign currencies or in gold as

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[148] *IARA Final Report*; "Draft Background and Position Paper on Portuguese Claims (For Lisbon Conference)," undated but possibly drafted around October 1956, RG 59, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 15.

[149] The 248.7 million escudos included 49 million escudos from the Liquidating Commission, most of which was from quasi-official assets; 12.2 million escudos from the Allied Committee; and 187.5 million escudos from three shipping companies discussed above. The Allies had been petitioning the Liquidating Commission since 1949 over the shipping companies' case, claiming that Germany reimbursed the original owners for the ships, making them State assets. The Commission referred the case to the Portuguese Government for decision in 1952, which decided in favor of the Allies. (Memorandum by the Allied Committee for German External Assets in Portugal, December 19, 1952, RG 84, Embassy Lisbon, Records Relating to German External Assets in Portugal 1947-1956, Box 1 of 3; memorandum from Ingersoll to Ambassador, February 14, 1956, enclosing "Final Report of the London Conference," ibid., Embassy Madrid, Classified General Records 1953-1963, Box 4)

[150] Department of State Instruction, CA-8051, April 13, 1956, and Department of State Instruction, CA-8966, May 11, 1956, both ibid.

[151] "Conference on German Assets in Portugal and Other Asset Problems, Lisbon, October 15-November 3, 1956," RG 59, Records of the Office of Financial Operations, Records Relating to the Tripartite Commission for the Restitution of Monetary Gold, 1942-1962, Box 24.

specified by the Three Powers," for a total of 144.5 million (about $5 million). In a separate agreement, Germany agreed to reimburse Portugal directly for the 144.5 million as well as 250 million escudos ($8.7 million), a total of $13.7 million to satisfy its wartime claims, and Portugal agreed to turn over all unliquidated assets to Germany, from which it would take a one-third levy. Implementation of both agreements, however, rested on Portugal and Germany reaching a settlement on reciprocal trademark and patent rights of its citizens and their wartime claims.[152]

While these negotiations were continuing, the United States, Britain, and France, in response to urgent requests by the IRO, decided to pay Portugal's obligation to the $25 million fund for non-repatriable refugees. Between March 1955 and December 1956, the Allies made two payments to the IRO for a total of 15.2 million Swiss francs (100 million escudos or $3.5 million). The sum was deducted from the Swiss francs acquired by the Allies from Switzerland pursuant to the 1952 Allied-Swiss agreement.[153] Portugal did not specifically repay the Allies for their payment to the $25 million fund.

In April and June 1958 Germany and Portugal reached agreement on a host of bilateral issues, including Portugal's wartime claims. Portugal also agreed to return all unliquidated assets to Germany for distribution to the original owners. These agreements opened the way for all five nations to sign a final accord on October 27 committing themselves to the 1956 terms. Over the next year Germany paid Portugal the full 394.5 million escudos ($13.7 million) in installments, and by December 1958 Portugal turned over the 12 million escudos ($418,000) to the IARA, as well as 3,998.741 kilograms of gold (approximately $4.5 million) for deposit in the Tripartite Gold Commission.[154]

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[152] "Conference on German Assets in Portugal and Other Asset Problems, Lisbon, October 15-November 3, 1956," ibid.; *IARA Final Report.*

[153] *IARA Final Report.* A copy of a request for the funds from the IRO is attached to a memorandum from Ingersoll to the Ambassador, February 14, 1956, enclosing "Final Report of the London Conference," RG 84, Embassy Madrid, Classified General Records 1953-1964, Box 4.

[154] *IARA Final Report.* The West German-Portuguese agreements are in 1959 WGBB 264. The October 1958 treaty is in 351 UNTS 5031. The IARA Report noted that Portugal turned over 15.5 million escudos ($539,400 at the 1958 exchange rate); no documentation has been found to account for the additional 3.5 million escudos. The report also indicates that Portugal turned over 758,336 Belgian francs, worth about $12,473 in 1958. The documentation does not make clear what became of the 248.7 million escudos ($8.6 million) liquidated by February 1956 or if more assets were liquidated after that date.

Allied Relations and Negotiations With Spain

A. From Spanish "Non-Belligerency" to Spanish Neutrality[1]

Shortly after the outbreak of the War in September 1939, Spanish dictator General Francisco Franco released an official decree of neutrality in the conflict, despite his open ideological affinity with the Axis leaders who had provided him with critical support in the Spanish Civil War. Nevertheless, he hovered on the brink of intervention on the side of the Axis through much of 1940 and 1941, and even contributed a force of Spanish volunteers estimated to be as many as 40,000, known as the Blue Division, which served as the German 250th Division on the Russian Front from mid-1941 until October 1943. The possibility of Spanish belligerency was premised on an early German victory over Britain and on German agreement to Spanish territorial expansion in Africa into French Morocco and perhaps even in Europe at the expense its neighbors, Vichy France and neutral Portugal. The United States and Britain joined in a continuing effort to keep Franco's Spain out of the War by providing essential exports like gasoline and grain to prop up the Spanish economy, which had been in a state of collapse since the end of the Spanish Civil War. The close ideological and political ties between the Franco dictatorship and those of Germany and Italy were never misapprehended by the United States and Britain. After 1941 Spain drifted gradually from imminent belligerency toward a demonstratively pro-Axis neutrality. Spain cooperated with the Allies in humanitarian efforts, allowing safe passage through Spain of downed Allied fliers, escaped Allied prisoners, and civilian refugees, including Jews.[2]

The nature of Spain's neutrality in World War II turned in significant measure on Allied and Spanish perceptions of the danger of German invasion. While the Allies had feared a German invasion of Spain and even Portugal through 1942, by the beginning of 1943 these concerns had largely vanished, and by the end of 1943 Spain's leaders made clear their own conviction that the danger of German invasion had passed. The aura of German military invincibility was lost on the battlefields of Russia and the African desert in 1942 and 1943 as well as with the Allied landings in North Africa and the Mediterranean islands. At their wartime conference in Washington in December 1941, President Roosevelt, Prime Minister Churchill, and their military advisers reflected the

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[1] For a discussion of the terms "Neutral" and "Non-belligerent," please see Note on Neutrality above.

[2] *The War and the Neutrals*, pp. 264-266, 291-293. The April 8, 1998, report of the Spanish Comisión de Investigación de las Transacciones de Oro Procedentes del III Reich durante la II Guerra Mundial stresses the devastation of the Spanish economy after the three years of the Spanish Civil War. By the end of that war, Spain was in debt to Germany for more than $212 million for supplies of war material and other items to the forces of General Franco. The report maintains that liquidation of this debt was the fundamental financial issue between Germany and Franco's Spain during the wartime period. In its Conclusions, the report states that the Third Reich did not make payments to Spanish authorities for Spanish goods during the War, except to pay back earlier debts; the debt was gradually liquidated by payments in goods as well as by other means, such as the Blue Division and Spanish workers sent to work in German factories. In fact, as noted in footnote 8 below, Spain ended the war with a favorable trade balance with Germany.

anxiety that Germany might choose to invade Spain in order to attack and seize Gibraltar.[3] By the time of their next conference in Casablanca in January 1943, they recognized that the tide of war had turned against Germany and the danger of a German invasion of Spain had dissipated. At Casablanca the Allied military leaders were persuaded that Spain had turned away from the Axis and that Germany no longer had the forces to invade it. Indeed, the Allies were prepared, at least on a planning basis, to consider their own invasion of Spain in order to ensure access to the Mediterranean.[4]

During the remainder of 1943, U.S. and British military leaders regarded the danger of a German invasion of Spain to have receded even farther. The U.S. Joint Chiefs of Staff went to the Roosevelt-Churchill wartime meeting at Quebec in August 1943 with an appraisal of the weakening German military situation that emphasized the absence of any real ability to take offensive actions in western or southern Europe and the conclusion that the current deployment of the German Army indicated that such action had been discarded for 1943 and "was even less feasible for 1944." The JCS regarded Spain as the only possible site for such a desperate military action, carefully reviewed resources and possible operational difficulties, and concluded that the only reason to undertake it would be to improve chances for a peace settlement with the Allies. En route to the heads of government meetings at Tehran and Cairo in November 1943, the Joint Chiefs prepared another estimate of the German military situation that stressed that Germany's deteriorating strategic position and the lack of offensive capabilities made German military action in 1944 against the neutral nations totally unlikely, except as an "imperative necessity" to ward off pro-Allied military action originating in Sweden or Turkey or the need to make a diversion in Spain.[5]

The Allied appraisal of the declining German threat to Spain was mirrored during 1943 by the Spanish Government's move away from its pro-German non-belligerency to a more clear neutrality. The threat of a German invasion to counter the Allies or punish Spain for turning away from the Axis was never again raised in Allied circles, and no longer appeared to worry the Spanish. When U.S. Ambassador Carlton J. H. Hayes called on Franco in July 1943, he explained that there were three major aspects of Spanish policy that needed to be revised if Spain were to demonstrate real neutrality: Spain would have to announce its neutrality unequivocally, the Falange-controlled organs

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[3] Memorandum by Churchill, December 16, 1941, and records of the meetings of the U.S. and British Chiefs of Staff, December 24 and 26, 1941, and Record of the Meeting of Roosevelt and Churchill and their Military Advisers, January 4, 1942, *Foreign Relations*, The Conferences at Washington, 1941-1942, and Casablanca, 1943, pp. 25, 85, 97, 163, and 168.

[4] Record of the Meeting of the Combined Chiefs of Staff, January 14, 1943, ibid., p. 539; Record of the Meeting of the Combined Chiefs of Staff, January 15, 1943, Record of the Meeting of the Combined Chiefs of Staff, January 18, 1943, Memorandum of the British Chiefs of Staff, C.C.S. 135/1, "Basic Strategic Concept for Europe, 1943," January 3, 1943, ibid., pp. 539, 571, 625, and 745. C.C.S. 135/1 included the following appraisal of the German danger to Spain: "Germany will have no forces to spare to invade Spain. Spain is less likely to yield to German pressure if we keep the German forces fully extended by a vigorous offensive in the Mediterranean."

[5] Enclosure to C.C.S. 300/1, August 7, 1943, "Estimate of the Enemy Situation, 1943-1944, European Area (As of 30 July 1943)," ibid., pp. 453-467, and C.C.S. 330/3, November 18, 1943, "Estimate of Enemy Situation, 1944—Europe (As of 1 November 1943)," ibid., The Conferences at Cairo and Tehran, 1943, pp. 214-226.

of government would have to adopt the policy of impartiality already followed by the Foreign Ministry, and the Spanish Blue Division should be withdrawn from the Soviet Union. Franco replied that he could not yet fully renounce non-belligerency but could begin moving toward neutrality:

> "Franco said that Spain was in fact neutral. He was determined that Spain would not be involved in the war. Spain intended to be neutral. However the word neutral had a disagreeable connotation. It implied indifference. Spain was not indifferent to the struggle against Communism."[6]

British Ambassador Hoare subsequently on August 20 also made representations to the Spanish Government about the withdrawal of the Blue Division. By October 1943 Ambassador Hayes was able to inform President Roosevelt that Franco had gone further in embracing neutrality.

> "Last Friday [October 2, 1943], the Caudillo gave his annual gala reception in the Oriente Palace to the diplomatic corps and the staffs of the various Spanish ministries, and afterwards made a speech. This year, unlike previous years, he did not receive the 'Party' and did not wear the Falangist uniform. He wore instead a naval uniform—perhaps in confirmation of what he said at La Coruna, last month, to the effect that Spain's future, like her past, was on the sea and toward the Americas. And in the speech he made last Friday, he uttered publicly and solemnly, *for the first time*, the hitherto tabooed word of 'neutrality' to define Spain's international position. I am sure we shall never again hear of Spain's 'non-belligerency'."[7]

Three weeks later, on October 22, 1943, the Spanish Foreign Minister assured Ambassador Hayes that the Blue Division would be withdrawn on October 25 and thereafter there would be no Spanish soldiers on the Eastern Front.[8]

B. Spain's Wartime Trade With the Axis

Spain's ideological sympathy with the Axis was scarcely concealed, but it was the Spanish economic support for Germany and its war-making capacity that concerned the Allies most immediately and which the Allies sought to reduce and eventually end. Spain

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[6] Airgram A-368 from Madrid, July 29, 1943, *Foreign Relations*, 1943, vol. II, p. 612. The Falange was the pro-Fascist, pro-Franco political movement in Spain. According to an intercepted report on the conversation to the Spanish Ambassador in Washington, decrypted by U.S. authorities and available to U.S. leaders, Spanish Foreign Minister Jordana mentioned nothing about Franco's declaration of Spanish neutrality to Hayes. ("Magic" Diplomatic Summary, August 15, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 6)

[7] Letter from Hayes to Roosevelt, October 4, 1943, *Foreign Relations*, 1943, vol. II, pp. 620-621.

[8] Telegram 2330 from Madrid, August 28, 1943, and telegram 3080 from Madrid, October 22, 1943, ibid., pp. 615, 618-619, and 625-626. According to a War Department report based on intercepted cables, decrypted by U.S. authorities and available to U.S. leaders, as early as October 12 Spain had "withdrawn all government support from the Blue Division," which it now regarded as "acting on its own initiative." ("Magic" Diplomatic Summary, October 15, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 7)

provided Germany and the Axis with exports critical to the German war effort.[9] A 1947 State Department report determined that Franco had acted "in a most unneutral fashion" for the first four years of the war, providing Nazi Germany with significant amounts of strategic goods, as well as military and intelligence support.[10]

At the center of the German-Spanish trading relationship was the large commercial conglomerate Sociedad Financiera Industrial (SOFINDUS), formed in 1936 under the name Rowak. Through special bilateral agreements in 1937 and 1939 granting German enterprises "favored economic treatment,"[11] SOFINDUS acquired a commercial empire that included ten agricultural subsidiaries, one affiliate organization, significant mining interests, and nine transportation companies. In shipping alone, by 1941 SOFINDUS was operating as many as 53 vessels with a combined capacity of 55,000 tons. SOFINDUS served as the Nazis' commercial agency in Spain, handling all non-military trade and developing Spain's nascent mining and agricultural industries, principally to supply the Third Reich with raw materials vital for its economy and war industries.[12]

Spain's strategic location occupying most of the Iberian peninsula, its borders with Axis-controlled Vichy France, and its trade ties to North Africa and South America

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[9] The development of the German-Spanish relationship is the subject of two postwar studies based on captured German Foreign Office records: memorandum from Bonsal to Ramsey, May 5, 1947, RG 84, Embassy Madrid, Classified General Files (Security-Segregated Records) 1936-1949, Box 122 and despatch 4096 from Madrid, June 30, 1947, ibid. In the latter, the cover letter from the Embassy to State gives an assessment of Franco's motivations. The report of the Spanish Comisión de Investigación notes that wartime trade between Spain and Germany was a continuation of the economic relationship begun during the Spanish Civil War. The trade was conducted through a clearing agreement in order to avoid payments in foreign currency. Germany supplied Spain with manufactured goods and armaments in exchange for strategic materials such as wolfram, pyrites, and iron, with a final balance (in 1945) in Spain's favor of $76 million.

[10] Despatch 4096 from Madrid, June 30, 1947, ibid. According to intercepted messages decrypted by U.S. authorities and available to U.S. leaders, a key aspect of this intelligence support were spy networks set up in the United States and Britain and operated by the Spanish Embassies in Washington and London. These networks were established and directed by Spanish Foreign Minister Serrano Suñer. Germany provided the funding and equipment (principally short-wave radios) for the network in Britain, which began operating in 1939, and the Japanese apparently sponsored the network in the United States, which seems to have begun operating in 1942. ("Magic" Diplomatic Summary, August 28, 1942, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 1)

[11] Memorandum from Bonsal to Ramsey, May 5, 1947, and despatch 4096 from Madrid, June 30, 1947, both RG 84, Embassy Madrid, Classified General Files (Security-Segregated Records) 1936-1949, Box 122.

[12] Medlicott, *The Economic Blockade*, vol. II, pp. 289-290; despatch 1572 from Madrid, January 30, 1946, RG 59, Decimal Files 1945-49, 800.515/1-3046; Clarke, "The Safehaven Project," pp. 176-178, RG 169, Records Assembled by the Historian, Material on the Safehaven Project, 1943-1945, Box 991. According to an intercepted July 3, 1942, cable from the Japanese Ambassador in Madrid to Tokyo, decrypted by U.S. authorities and available to U.S. leaders, Germany had "more than 1,000 people who are employees of semi-official ersatz industry concerns...and...100 staff members of the government-owned railway's publicity bureau and the Society for Cultural Relations" in Spain along with a complement of 182 diplomats. Italy had 204 diplomats. (RG 457, Historic Cryptographic Collection, Pre-World War I through World War II, Diplomatic Message Translations, Box 314)

made it a principal supply route for the Nazis. In a secret protocol to a 1939 German-Spanish agreement, Spain promised to serve as a "conduit of supplies from South America...via Italy and Yugoslavia."[13] In May 1940 Spain signed a three-year agreement with Italy promising it vital supplies of skins, foodstuffs, and minerals in return for manufactured goods.[14] As a result, Spanish exports to Germany through Italy and the Balkans more than doubled during the first two years of the War to 43,857 tons in 1941. When the Nazis occupied southern France in November 1942, the Franco-Spanish frontier soon supplanted the Mediterranean as the principal supply route to Germany, and overall Spanish exports to the Axis rose from 970,000 tons in 1941 to 1.28 million tons in 1942.[15]

With the opening of the Franco-Spanish frontier in 1942, the composition of Spanish trade with the Axis changed. Before the War, foodstuffs comprised the bulk of Spain's trade with Germany and Italy. By 1942, however, these had declined by a third and were replaced by items more essential to Germany's war industries: minerals and metals. Seventy percent of the metal trade was composed of iron ore and pyrites used in making steel.[16] While Germany produced most of its own steel, Spain (along with Sweden) was a principal source of high-grade iron ores.[17] Based on Allied estimates, Spain exported more than 2 million tons of these commodities between January 1941 and April 1944, excluding their transport by truck, which the Allies believed was significant. The Axis also acquired zinc, lead, mercury, fluorspar, celestite, mica, and amlygonite from Spain.[18]

The most critical of Spain's exports to Germany was wolfram. Spain, as Europe's second leading source of wolfram after Portugal, was one of Germany's principal suppliers. Although the Nazis could turn to Northern and Eastern Europe for other raw materials that Spain exported, they were dependent on the Iberian peninsula for most of

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[13] Memorandum from Bonsal to Ramsey, May 5, 1947, and despatch 4096 from Madrid, June 30, 1947, both in RG 84, Embassy Madrid, Classified General Files (Security-Segregated Records) 1936-1949, Box 122.

[14] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, p. 88, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside Division, Box 5.

[15] "Spanish Foreign Trade," October 14, 1943, RG 165, Records of the Military Intelligence Division, Regional Files 1922-44, Spain, Box 2923; "Trade, Finance, and Communications of Spain, Portugal and their Possessions," Board of Economic Warfare report, January 20, 1943, ibid., Box 2922.

[16] "Spanish Foreign Trade," October 14, 1943, ibid., Box 2923.

[17] Kreps to Taylor, enclosing "A Study in the European Steel Cartel," by Dr. Philip Neumann, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 2. In 1943 Spain exported 457,981 metric tons of iron and steel to the Axis, a little over 1 percent of the Axis' annual requirement. ("Iberian Exports of Mineral and Metals to Axis Europe - 1943," January 12, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1922-44, Portugal, Box 2845)

[18] "Spanish Foreign Trade," October 14, 1943, ibid., Spain, Box 2923.; Report 68500, May 12, 1944, and "Iberian Exports of Minerals and Metals to Axis Europe-1943, January 12, 1944, both ibid.

their wolfram.[19] The Allies, in contrast, had easier access to sources in Latin America and the Far East and were not as reliant on the Iberian market. Their objective during the War was to purchase enough of the ore to satisfy Spain's export demands and prevent it from increasing its trade with the enemy.[20]

Spanish ships were the Axis' principal means of smuggling essential goods from South America. Without a large merchant fleet, the Axis turned to private shippers in the neutral countries, like Spain, to transport goods not available in continental Europe. In response, the Allies established a cargo certification program, known as the "navicert system," for neutral vessels plying the Atlantic between Latin America and the Iberian peninsula. The system regulated the amount of goods each ship carried based on import quotas established in the war-trade negotiations with Spain and made each shipper subject to random searches and seizures. Many shippers submitted to these restrictions to avoid the hazards of blockade-running and to take advantage of British insurance, banking, and fueling facilities. The system proved effective, and by 1942 had stemmed the flow of bulk raw materials and larger items to Axis Europe; however, smaller items, critical to the Axis economy but needed only in small amounts, such as drugs, chemicals, and certain minerals, continued to sneak through. Most of the smuggling was done by individual crew members, passengers, or freight forwarders, preventing the Allies from citing ship owners themselves with navicert violations. A January 1944 analysis of blockade violations found that 62 Spanish ships, "a substantial majority of the Spanish vessels on trans-Atlantic service," were involved in most of these cases.[21]

Most of the contraband trade involved industrial diamonds and platinum, both in short supply in Axis Europe, but available in Africa and Latin America. Industrial diamonds, used in precision machining, were critical to the armament, aircraft, automotive, and mining industries. As evidence of their value to the Axis, at the height of the trade in 1943, black market prices for diamonds in the Iberian peninsula were 20 to 30 times the commercial rate, and the U.S. Embassy in Madrid reported that supplies of between "200 to 1000 carats per week" were available on the Spanish black market. Platinum was used in electrical contacts, heat elements, electrodes, and x-ray and radio tubes, and was an important catalyst in a host of chemical processes including the making of nitrates and sulfuric acid. Black market prices on the Iberian peninsula at the height of the trade in 1943 were 11 times the commercial rate.[22]

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[19] "Iberian Exports of Mineral and Metals to Axis Europe - 1943," January 12, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1942-44, Portugal, Box 2845; "Wolfram and the War," February 4, 1944, ibid., Spain, Box 2845.

[20] "Wolfram and the War," February 4, 1944, ibid.; Medlicott, *The Economic Blockade,* vol. I, pp. 509-513.

[21] "History of Blockade Division, Enforcement Section," December 15, 1944, and "Blockade, Bargains and Bluff: Allied Economic Warfare in the European Neutrals," undated, circa spring 1945, both RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside Division, Box 1.

[22] "Blockade, Bargains and Bluff: Allied Economic Warfare in the European Neutrals," undated, circa spring 1945, and "Blockade Enforcement Manual," June 1943, both ibid.

C. Allied Efforts To Limit Spain's Trade With Germany

Allied wartime trade objectives in Spain were threefold: to procure certain vital goods that they could not easily obtain elsewhere; to limit as much as possible the export of certain strategic goods needed by the Axis, either through Spain's acceptance of export limits or Allied purchases of its exportable surpluses, known as preclusive buying; and to wean Spain from its dependence on German supplies of coals, armaments, fertilizers, chemicals and manufactured items by making Allied supplies more economically attractive. To further this policy, in March 1940 Britain signed a series of agreements with Spain promising it certain quantities of petroleum, rubber, ammonium and copper sulphate, and food products, in exchange for British purchases of iron ore and other minerals and citrus fruits. Britain loaned the Spanish 2 million pounds ($8 million) to make its purchases and set up a clearing agreement with credits based on pre-Spanish Civil War debts to Britain. Spain, in turn, promised to limit its exports to the Axis of copper alloys, cotton, oilseeds, tin, and wool. The trade program was set to last six months but was continually renewed throughout the War, although with changes in amounts and quotas. In December 1941, Britain granted Spain additional credits of 2.5 million pounds ($10 million). Pro-Axis members of Franco's government attempted to delay implementation of the agreements but were ultimately rebuffed. In addition to these agreements, in July 1940, Portuguese Premier Salazar concluded a trade agreement between his country and Spain which, by assuring that certain key goods would be traded between them and not with the Axis, indirectly aided the Allies. The agreement was renewed and extended in September 1942 and February 1943.[23]

By May 1943, in response to the growing contraband trade reaching Germany through Spanish and Portuguese ports, the United States established a comprehensive preclusive buying program in Latin America, stepped up intelligence activities, and began to search most ships bound for Iberia. To allow time to establish the infrastructure needed for these efforts and to apply pressure on Spain and Portugal to increase their enforcement efforts, the United States recommended a temporary halt in all navicerted trade. Britain, fearing the halt in traffic would jeopardize its trade with the neutrals and ongoing negotiations with Portugal over access to the strategic Azores, pushed for a more moderate program, and in January 1944 the two sides agreed to search a quarter of all Spanish ships returning from Latin America at new facilities in Gibraltar. While Spain did not complain openly about the additional diversions, it made no effort to control its black market. In the first month of the program, five of the six ships searched were found to contain smuggled items. Even before the Gibraltar diversions began, however, the Allied efforts began having some effect.[24]

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[23] *The War and the Neutrals*, pp. 27-28, 64-65; "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, p. 88, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

[24] "History of Blockade Division, Enforcement Section," December 15, 1944, and "Blockade, Bargains and Bluff: Allied Economic Warfare in the European Neutrals," undated, circa spring 1945, both RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside

D. Allied Competition With Germany for Spain's Wolfram, 1941-1942

Allied estimates of Germany's wolfram requirements were based on their knowledge of pre-war German industry and tungsten stockpiling; captured enemy documents, machinery, and artillery; limited military intelligence; and comparisons to their own wolfram consumption.[25] At the height of the trade in July 1943, the British estimated that Germany needed a minimum of 5,800 metric tons of wolfram annually, while the Americans placed that figure at 3,590 tons. The different estimates arose from differing analyses of German machine tooling and artillery requirements.[26] By February 1944 the United States and Britain agreed that Germany's minimum annual requirement was about 3,500 tons, with any additional procurement going to armor-piercing shells.[27] Both Allies concurred that wolfram was most critical to the German machine-tool industry, and predicted that if Germany was deprived of wolfram, its machine-tool industry would virtually shut down within three months,[28] thereby shortening the War or severely impacting Germany's capacity to continue to pursue the War.

In contrast to Portugal, which by 1941 began to carefully regulate the wolfram trade, Spain permitted a free market in the ore throughout the War, and the Allies' greater access to hard currency gave them a significant advantage in the competition with Germany for Spanish wolfram.[29] Before 1941, however, Germany had most of the advantages because it had begun developing Spanish wolfram sources at the end of the Spanish Civil War. To circumvent prohibitions against direct foreign ownership of Spanish businesses, Germany created a network of Spanish front corporations, mostly owned by SOFINDUS, and by 1941 controlled the highest producing mine, as well as an extensive network of companies to buy wolfram from independent producers and transport the ore to the Axis. Germany acquired almost all the 700-1,000 tons of wolfram that Spain produced in 1941, while Britain, which first began preclusive buying in Spain

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the Division, Box 1; Medlicott, *The Economic Blockade,* vol. II, pp. 435-445. According to an intercepted German cable of December 1943 from Berlin to Buenos Aires, decrypted by U.S. officials and available to U.S. leaders, Germany advised that, "because of the apparent compromising of our methods [and] losses that have occurred...and in consideration of neutral Spain, we consider it imperative to discontinue [smuggling] for the time being." ("Magic" Diplomatic Summary, December 25, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 8)

[25] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, p. 122, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

[26] "Tungsten Position of the European Axis," July 3, 1943, ibid., Research Reports and Studies, Box 11.

[27] "Raw Materials Position of Enemy Europe," February 14, 1944, ibid., Box 2. For a detailed explanation of the U.S. and British differences, see the chapter on Portugal above.

[28] "Ferro-Alloys and Their Effect on Steel in the German War Economy, 1943 and 1944," June 1944, ibid., Box 13.

[29] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 56, 127-129, ibid., Historical Monographs Prepared Outside the Division, Box 5.

in late 1941, purchased only 32 tons. Augmenting the direct exports to Germany were 150 tons promised annually to Italy under its 1940 agreement with Spain.[30]

In early 1942 Britain and the United States began a concerted preclusive buying program. The rising competition with Germany increased wolfram production in Spain to nearly 2,000 tons by the end of the year and prices from about $75 per ton before the War to $16,800. In June the Spanish Government set a minimum price of $16,380 per ton, which included a $4,546 export tax. To compete more effectively with Germany, the Allies set up their own dummy corporation in October 1942 to purchase independent ore as well as a few strategically placed mines,[31] and were able to acquire most of the new production, purchasing almost 1,000 tons during the year. German purchases remained at 1,000 tons for 1942.[32]

In December 1942, under German pressure for more explicit trade quotas than were included in the 1939 agreement, Spain signed a secret accord with Germany. Spain pledged to deliver fixed quantities of strategic Spanish commodities, including wolfram, in exchange for German coal, armaments, fertilizers, chemicals, and manufactured items. In addition, Spain granted Germany credits of 552.5 million pesetas ($50.2 million) for purchases. The agreement, however, soon collapsed, with both sides blaming the other for failing to make deliveries. Also in December Spain increased its minimum price of wolfram to about $20,500 per ton and allowed the Allies to exchange dollars and sterling for pesetas, giving them the means to purchase wolfram at a time when Germany's peseta holdings were running low.[33]

During 1942 Germany also increased its efforts to acquire wolfram illegally. To build a base for smuggling ore between Portugal and Spain, Germany began purchasing small mines on both sides of the border. Most of the illegal traffic went from Portugal, which had generally cheaper prices, into Spain, which bordered on Axis territory. The Allies estimated that the Germans smuggled almost 50 tons over the border per month by

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[30] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 88, 165-169, 176, 183, ibid. One source indicates that Spain exported to Italy 344 tons in 1940 and 104 tons in 1941, "Spanish Foreign Trade," October 14, 1943, RG 165, Records of the Military Intelligence Division, Regional Files 1822-44, Spain, Box 2923. According to the Spanish Comisión de Investigación report, in 1941 Germany bought $684,000 worth of wolfram, Italy $221,000 worth, the United States none, and Britain $55,000 worth.

[31] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 173-175, ibid.; "Wolfram and the War," February 4, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1922-44, Spain, Box 2845.

[32] "Spanish Foreign Trade," October 14, 1943, ibid., Box 2923. According to the Spanish Comisión de Investigación report, Germany purchased $1.6 million worth of wolfram in 1942. U.S. and British purchases together totaled $12.8 million.

[33] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 52-53, 88-89, 91-92, 184, 186, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5; *The War and the Neutrals*, pp. 265-266; Medlicott, *The Economic Blockade*, vol. II, pp. 563-564.

early 1943. In order further to limit this German supply of wolfram, the Allies bought a significant amount of wolfram on the Spanish black market.[34]

E. The Spanish-German Secret Trade Agreement and the Allied Oil Embargo, 1943-1944

In February 1943 Germany and Spain concluded a secret agreement in which Germany promised to sell Spain armaments in exchange for renewing the December 1942 trade agreement, which had recently collapsed. During the negotiations, Germany demanded a 400 percent markup on the weapons; Spain demanded the weapons at cost, to which Germany, desperate for wolfram as well as pesetas to pay for the wolfram purchased in 1942, agreed. The German Commercial Attaché noted in an interrogation after the War that relations between the two countries at this time were "strained and difficult."[35] By August the two sides reached an agreement in which Germany pledged sales to Spain of up to 216 million Reichsmarks in armaments without a markup, and Spain agreed to pay back its Spanish Civil War debt to Germany in four installments, which the Germans would use to purchase wolfram outside of the Spanish-German clearing agreement. Germany also agreed to pay Spain 300 pesetas per kilogram of wolfram, 100 pesetas more than the Allies. The first installment of 425 million pesetas (about $38.6 million) was placed at Germany's disposal in December 1943.[36] By January 1944 Germany had already purchased over 300 tons of wolfram.[37] For all of 1943, the Allies estimated that Germany procured between 1,185 and 1,192 tons of wolfram from

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[34] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 185-187, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5; Medlicott, *The Economic Blockade,* vol. I, pp. 524-529, and vol. II, pp. 595-598. Medlicott notes that the Germans had smuggled 550 tons of Portuguese wolfram through Spain in the first half of 1943 (vol. II, p. 596).

[35] MID Report 407-45, October 16, 1945, RG 84, Embassy Madrid, Classified General Files (Security-Segregated Records) 1936-1949, Box 71; Medlicott, *The Economic Blockade,* vol. II, pp. 563-564. By August Germany had exhausted its pesetas and owed Spain almost 425 million pesetas ($38.6 million) on their clearing debt.

[36] Memorandum from Bonsal to Ramsey, May 15, 1947, RG 84, Embassy Madrid, Classified General Files (Security-Segregated Records) 1936-1949, Box 122; despatch 4096, June 30, 1947, ibid.; Medlicott, *The Economic Blockade,* vol. II, pp. 563-568; "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 53-54, 92, 194, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5; Herbert Feis, *The Spanish Story* (New York, 1948), pp. 207-212. Before the end of 1943, Spain had received more than 1,000 railroad cars of arms and other German goods.

[37] Report 68500, May 12, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1922-44, Spain, Box 2923.

Spain, about 34-35 percent of its annual estimated requirement.[38] The Allies increased their take to 3,335 tons.[39]

In November 1943, after learning of the agreements, U.S. Ambassador to Spain Carlton Hayes asked the Spanish Government to embargo further wolfram sales to the Nazis while the Allies and Spain negotiated a wolfram accord, some form of compensation for Spain's lost revenue, and possible increases in Allied supplies.[40] On January 14, 1944, Spanish Minister for Industry and Commerce Carceller defended Spain's agreements with Germany, noting that Spain "felt it impossible to deny completely to Germany a commodity which they wanted so badly and which...had a very high value in wartime." Two weeks later British Ambassador to Spain Sir Samuel Hoare met with Franco to persuade him to suspend wolfram sales to Germany. The United States and Britain had agreed prior to the meeting to use the threat of an oil embargo if Spain did not cooperate. Both had been reluctant to use such a threat for fear of driving Franco back to Hitler, the British being the most vociferous in the opposition. But now both were prepared to consider it.[41] Hoare asked Franco to reconsider the November 1943 U.S. request for a complete embargo on trade with Germany and handed him an Aide-Mémoire that noted: If the Spanish Government "persists in giving, intentionally or unintentionally, unneutral assistance to the enemy, long after it is possible for them to plead the excuse of force majeure...[the Allies] will not be able...to maintain their present policy towards Spain." Franco did not respond directly but indicated that Spain did not intend to let Germany "purchase large stocks of wolfram rapidly."[42]

In January 1944 the Allies, after debating the issue of an oil embargo over many months, finally halted the shipment of oil to Spain. It was a move supported by the U.S. and British public and political and military leaders. Curbing Spain's mounting wolfram exports to Germany was not the sole objective of the embargo; the Allies were distressed by the continued presence in Russia of the Spanish Blue Division, espionage activities along the Spanish coast, and the pro-Axis press.[43] The embargo stretched into April

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[38] "Magic" Diplomatic Summary, August 17, 1944, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 12; "Iberian Exports of Minerals and Metals to Axis Europe - 1943," January 12, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1942-44, Portugal, Box 2845. In contrast, a later British report listed a possible 1,714 tons for 1943, but described 589 tons of this as "unconfirmed." (Report 68500, May 12, 1944, ibid., Spain, Box 2923)

[39] *The War and the Neutrals*, p. 92. According to the Spanish Comisión de Investigación report, Germany bought $8.6 million worth of Spanish wolfram in 1943; the United States and Britain together bought $39.3 million worth.

[40] "Wolfram and the War," February 4, 1944, RG 165, Records of the Military Intelligence Division, Regional Files 1922-44, Spain, Box 2845; despatch 1964, January 31, 1944, RG 84, Embassy Madrid, Classified General Records 1940-45, Box 36; paraphrase of cable 3302 from Madrid, November 11, 1943, RG 165, Records of the Military Intelligence Division, Regional Files 1922-44, Spain, Box 2922; Medlicott, *The Economic Blockade*, vol. II, pp. 561-566.

[41] Ibid.

[42] Despatch 1997, February 4, 1944, RG 84, Embassy Madrid, Classified General Records, 1940-1945, Box 36.

[43] The imposition of the oil embargo is described by the principal Assistant Secretary of State involved in Acheson, *Present at the Creation*, pp. 53-55; and by Secretary of State Hull in Hull, *Memoirs,*

1944, while Spain and the Allies met intermittently. Britain favored a compromise that would allow Spain to resume wolfram exports to Germany at the 1943 level of 720 tons per year, but the United States continued to demand a complete ban. The Allies began unlimited purchases of the ore, but by April began to run low on pesetas, and Spanish banks refused to grant them credit. On May 2 Spain finally agreed to limit its wolfram exports to Germany to 580 tons for the year—300 tons already delivered in January, 40 tons up through June, and 240 through December—and the Allies agreed to resume oil shipments.[44] The British believed it was their efforts at compromise that forged the deal. Secretary of State Cordell Hull, however, in a cable to Ambassador Hayes, wrote: "Because of our insistent position we have whittled down the Spanish in spite of an absence of wholehearted British support. Had we had full British support I am convinced we could have obtained our objective."[45]

The former German Commercial Attaché in Madrid noted that while the May 1944 agreement was a "bad blow" to Germany, "considerable quantities of Spanish wolfram reached Germany up to August 1944," when the Franco-Spanish border closed.[46] A War Department report of August, based on decrypted cable traffic between SOFINDUS and Berlin, indicated that Germany obtained at least 865.6 tons of wolfram through July, almost 286 tons more than called for under the May agreement for the entire year. In addition, as late as June, Germany had plans in place to smuggle an additional 1,200 tons that were either in stockpiles or on order. (German firms sold most of this wolfram to Spanish companies which shipped it to France and then resold it to Germany.) Spain's exports to Germany ended with the closing of the Franco-Spanish border in August 1944.[47]

F. The Safehaven Program in Spain

Allied efforts to identify and control German external assets and gold in Spain began in spring 1944 with the U.S.-initiated Safehaven program aimed at thwarting the efforts of Germany to move assets abroad to the neutrals to serve as the basis for a Nazi resurgence in the wake of its increasingly certain defeat in the War. The Safehaven program was led by the Foreign Economic Administration (FEA) and involved the Departments of State and Treasury and the Office of Strategic Services (OSS). A fact-

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vol. II, pp. 1328-1344. The full documentary record of the diplomatic side of the embargo issue is presented in *Foreign Relations*, 1944, vol. IV, pp. 297 ff.

[44] Medlicott, *The Economic Blockade,* vol. II, pp. 568-576.

[45] *Foreign Relations,* 1944, vol. IV, p. 408; Medlicott, *The Economic Blockade,* vol. II, pp. 575-576.

[46] MID Report 407-45, October 16, 1945, RG 84, Embassy Madrid, Classified General Files (Security-Segregated Records), 1936-1949, Box 71.

[47] An intercepted July 1944 cable, decrypted by U.S. authorities and available to U.S. leaders, noted that SOFINDUS was consulting with Foreign Minister Jordana in these operations, and had "the full support" of Minister of Industry and Commerce Carceller, Air Minister Vigon, Finance Minister Bengumea, and "even higher authorities." ("Magic" Diplomatic Summary, No. 875, August 17, 1944, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 12) The Spanish Comisión de Investigación report indicates that Germany bought $11.9 million worth of Spanish wolfram in 1944, the United States bought none, and Britain bought $22.4 million worth.

finding team led by Samuel Klaus of the FEA and including Herbert Cummings for the State Department made a lengthy inspection trip to Europe in late summer and fall 1944.[48]

In his report on the trip, Klaus described the situation in Spain as "the most discouraging as well as the most difficult" of all the neutrals. Klaus reported that the U.S. Embassy and Ambassador Carlton Hayes had shown no willingness to cooperate in the program. The Embassy in Madrid argued that it had kept Washington adequately apprised of all Axis activities in Spain and would not begin any investigations "outside of the normal peace time methods of official diplomatic missions" unless the agencies engaged in Safehaven indicated what they intended to do with the evidence uncovered. Klaus also reported that Embassy officials had obstructed his investigations even though Spain was "beyond question the country in which the most damaging Safe Haven activities" were occurring.[49]

Klaus' complaints about the uncooperativeness of the Embassy in Madrid echoed the experience of the OSS in Spain. OSS operatives in Spain, who usually had the "cover" of Embassy assignments, claimed their intelligence efforts were being "hampered" by Embassy personnel who routinely informed the Spanish Government about their activities. By November 1943 Ambassador Hayes had convinced the State Department that all OSS operatives in Spain should report directly to him, arguing that "espionage against a 'friendly' country [was] 'un-American.'" As a result, the OSS was forced to use "free agents under private rather than State cover." Klaus' report also noted that because of the Embassy's limitations on OSS activities, its intelligence could not be relied on.[50]

Ambassador Hayes, in his own report on Klaus' mission, detailed the Embassy's efforts to cooperate with the Klaus team, but acknowledged that "uncomfortable personal antagonisms" arose during the visit. Hayes confirmed his misgivings over Safehaven objectives, repeating that the Embassy had already provided Washington with most of the information the team sought and that he needed to know "the degree of detail which Washington required and an indication of what practical action might be taken after...[the] data were assembled," before he began a concerted investigation.[51]

Despite the Embassy and Ambassador's lack of cooperation, Klaus was able to make some analysis of the situation in Spain. He noted that the governmental Instituto Española de Moneda Extranjera (Foreign Exchange Institute) "allegedly" coordinated all commercial transactions and that "Germans need only to make personal deals with their friends" there to bypass regulations. Germans had similar access to the Instituto Nacional de Industria, which sponsored "enterprises deemed to be in the public interest." With this

[48] *Foreign Relations*, 1944, vol. II, pp. 220-221.

[49] Memorandum from Klaus to Currie, Coe, and Cox, October 21, 1944, Franklin D. Roosevelt Library, Cox Papers, Lend Lease File, Box 104.

[50] *OSS War Report*, vol. II, pp. 33-34; memorandum from Klaus to Currie, Coe, and Cox, October 21, 1944, Franklin D. Roosevelt Library, Cox Papers, Lend Lease File, Box 104.

[51] Despatch 3163 from Madrid, RG 59, Decimal Files 1940-45, 800.515/5-3044.

access, Klaus believed Germans could easily cloak their assets in Spanish enterprises, and he cited several examples. He also believed that the Nazis were using Tangier as a conduit to move their assets from Spain and Portugal to Argentina, noting that many holding companies were being established there and that the Spanish Government and citizens were buying local properties.[52]

G. First Allied Approaches to Spain, 1944-1945

In October and November 1944 the Allies made their first formal approaches to Spain requesting the cessation of all gold transactions involving enemy interests and implementation of measures to control Axis gold and assets embodied in the Allies' February 1944 Gold Declaration and Resolution VI of the July 1944 Bretton Woods Conference.[53] After several months without a response, in January 1945 the United States and Britain began discussing how to follow up. The Treasury Department and the FEA advocated linking the Safehaven negotiations with upcoming talks on renewing the Allied-Spanish Supply Purchase Agreement, which had expired in December 1944. Because Allied military advances had cut Spain off from Germany and Spain had only the Allies to turn to for vital supplies, the two agencies argued that the United States and Britain were in a strong position to obtain Spanish concessions on Safehaven and set some precedents for negotiations with the other neutrals. Some officials in the State Department supported this linkage, but others in Washington and the Embassies were concerned about pushing such a hard line with the Spanish.[54]

The British also argued that Safehaven was a political issue and should be separate from the economic negotiations to renew the Allied-Spanish Supply Purchase Agreement. The United Kingdom was also concerned that Spain would reject the Safehaven demands, sacrificing a trade agreement and depriving the British of needed supplies from the Iberian Peninsula. The debate continued through the spring of 1945, but with Britain and some in the State Department opposed to linkage, the Allies decided to approach Spain on Safehaven separately from the trade agreement negotiations, but using Treasury and FEA's "'hard core' demands."[55]

On May 1, 1945, the Allies presented a note to Spain, demanding that it publicly declare adherence to the February 1944 Gold Declaration and Bretton Woods Resolution VI, immediately freeze and conduct a detailed census of all Axis assets, immobilize and facilitate the return of loot, provide the Allies with all available information concerning Axis nationals in Spain, and establish effective controls on all transactions involving Axis

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[52] Memorandum from Klaus to Currie, Coe, and Cox, October 21, 1944, Franklin D. Roosevelt Library, Cox Papers, Lend Lease File, Box 104.

[53] Memorandum from Schmidt to Rubin, July 8, 1946, RG 131, Foreign Funds Control, Subject Files, Box 389.

[54] Letter from Crowley to Stettinius, January 17, 1945, ibid., Box 390; memorandum from Fleischer to Feig, January 25, 1945, ibid.; memorandum for files, January 30, 1945, ibid., Box 382.

[55] Chronology of Safehaven Developments, March 25, 1945, ibid., Box 388; memorandum to files, March 13, 1945, ibid.; memorandum to files, March 9, 1945, ibid., Box 383; FFC Monthly Report, May 1945, ibid., Box 256. The quote is from the FFC Monthly Report, April 1945, ibid.

entities. Four days later, with V-E Day approaching and under mounting pressure from the Allies, Spain issued a Decree Law implementing measures to freeze and immobilize all assets with Axis interests. The law was ratified by the Spanish Government in July.[56]

H. Early Allied Efforts To Control German Assets in Spain

After the German surrender on May 7, 1945, Spain consented to the creation of an Anglo-American Trusteeship to take control of German State and quasi-official properties, such as Legation buildings, shipping lines, and the Nazi party offices; appoint overseers for "quasi-official enterprises," such as SOFINDUS, I.G. Farben Group, Osram, Siemens, Roechling and Bosch; and advise Spain's Economics Ministry on identifying and liquidating private assets. The Trusteeship was composed of three representatives each from the United States and Britain. In August a special arrangement was made with France, which did not yet have diplomatic relations with Spain, to allow three French members to join. Most of the day-to-day negotiations through 1945 and early 1946 over German assets and gold were handled through the Trusteeship in close cooperation with each government's Embassy in Madrid.[57]

Problems between the Trusteeship and the Spanish authorities arose almost immediately. By January 1946 the State Department was reporting that, "Implementation of the [May 1945] decree has not been altogether satisfactory...the census proved to be a complete farce."[58] A July 1946 Foreign Funds Control (FFC) report noted that "archives,...automobiles, office equipment, cameras, and the like" had been removed, and the Spanish had not cooperated in recovering them. Cash in the amount of 53 million pesetas (about $3.2 million),[59] as well as about 1 ton in gold coins (about $1.13 million), were stolen from these properties and ultimately "acquired by the Spanish Ministry of Foreign Affairs." By the time of the July report, the Ministry had turned over to the Trustees the coins, miscellaneous gold taken from the German Embassy and Abwehr Office, and 20 million pesetas ($1.8 million), holding the rest as collateral until agreement could be reached on resolving German wartime debts to Spain and the total value of the German assets could be determined. The report also noted that in December 1945 the Trustees had delivered the coins and gold to the Office of the Military

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[56] FFC Monthly Report, May 1945, ibid; memorandum from Schmidt to Rubin, July 8, 1946, ibid., Box 389. A draft of the note is available in telegram 3158 to London, April 22, 1945, RG 59, Decimal Files 1945-49, 800.515/4-2245.

[57] Post to Surrey, January 10, 1946, ibid., 800.515/1-1046; Report, "Safehaven Program in Spain," attached to Schmidt to Rubin, July 1, 1946, RG 131, Foreign Funds Control, Box 389. Composition of the Trusteeship is from the minutes of a Trusteeship meeting in Madrid on May 8, 1946, in RG 59, no document number.

[58] Post to Surrey, January 10, 1946, RG 59, Decimal Files 1945-49, 800.515/1-1046.

[59] In August 1946 the peseta was devalued. Throughout the 14 years of negotiations, the peseta was devalued twice by very substantial amounts. The conversions in this report reflect the official rates in force at the time of the events.

Government of Germany (OMGUS).[60] A later report indicated that the total gold recovered from German offices totaled 1.15 tons (about $1.3 million).[61]

Identification of private assets was also difficult. Many Spanish businesses kept "two sets of books," a fictitious one that often masked outside investment, including German, and an accurate one.[62] Spain used the former to conduct its census of these firms and "invariably" reported that German interests were "minor." When the Trusteeship investigated the same firms it usually found significant German ownership. Furthermore, the Decree Law allowed many firms to cloak their German ties through transfers and sales of shares and property. The problem was so widespread that in April 1946 the Allies persuaded Spain to amend the law to prevent these practices.[63]

By July 1946 the Trusteeship had taken control of 278 million pesetas ($25.3 million) out of an estimated 1,045 million pesetas ($95 million) of German assets in Spain. These figures excluded the Trusteeship's acquisition of miscellaneous foreign currencies "valued at several hundred thousand dollars." An internal State Department memorandum broke down these assets into the following categories:[64]

Total assets (estimates):

Official:	165 million pesetas ($15 million)
Parastatal:	385 million pesetas ($35 million)
Private:	495 million pesetas ($45 million) (This includes assets of Germans resident in Spain.)
Total:	1,045 million pesetas ($95 million)

Assets under Trusteeship control as of July 1946:

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[60] Report, "Safehaven Program in Spain," attached to Schmidt to Rubin, July 1, 1946, RG 131, Foreign Funds Control, Subject Files, Box 389.

[61] Despatch 2871 from Lisbon, September 23, 1946, RG 59, Decimal Files 1945-49, 800.515/9-2346. In October 1952 the State Department reported that it had inspected and delivered 322 miscellaneous gold pieces and 21 gold bars weighing about 20 kilograms seized from the German Embassy in Madrid after the war to the Federal Reserve Bank in New York to hold for the Tripartite Gold Commission account. This gold had been held at the Treasury Department. The documentation does not make clear whether these gold coins were part of the 1 ton of gold coins delivered to OMGUS in December 1945, nor whether Spain turned over to the Trusteeship the remaining 33 million pesetas taken from official German buildings. (Friend et al. (State) to Smith (Treasury), October 13, 1952, and airgram A-497 from Brussels, May 1952, RG 56, Acc. 69A-7584, Records of the Office of the Assistant Secretary for International Affairs (OASIA), Box 4)

[62] Post to Surrey, January 10, 1946, RG 59, Decimal Files 1945-49, 800.515/1-1046.

[63] Report, "Safehaven Program in Spain," attached to Schmidt to Rubin, July 1, 1946, RG 131, Foreign Funds Control, Subject Files, Box 389.

[64] This information is from a memorandum from Post to Surrey, July 11, 1946, whose figures were entirely in U.S. dollars. The dollars were converted to pesetas at an exchange rate of 11 pesetas to one dollar. (RG 59, Decimal Files 1945-49, 800.515/7-1146) By July 1947 Seymour Rubin, who headed the U.S. delegation in the first phase of Allied-Spanish negotiations over restitution of gold and allocation of liquidated German external assets, estimated total German assets, private and official, at $90 million; Department of State *Bulletin*, July 27, 1947, p. 155.

Official:	47.3 million pesetas ($4.3 million, including $1.3 million in gold found in German State offices)
Parastatal:	231 million pesetas ($21 million, of which $20 million, or 220 million pesetas, represented SOFINDUS properties)
Total:	278.3 million ($25.3 million)

I. Estimates of German Looted Gold Acquired by Spain

The Allies based their estimates of Spain's wartime gold acquisitions on intelligence, captured German Reichsbank records, statements by Swiss banking officials, and records seized from the offices of the quasi-official corporations SOFINDUS and Transportes Marion. An August 1946 State Department report, using Trusteeship calculations, conservatively estimated that Spain acquired at least 122.852 tons of gold ($138.2 million) between February 1942 and May 1945: 11 tons directly from Germany and German-occupied territories, 74 tons from the German account at the Swiss National Bank, and 37.852 tons directly from the Swiss National Bank, which the Allies believed included some loot. The report concluded that of this total, an estimated 72 percent of the gold Germany sold during this period was looted and that Spain was therefore liable to return that percentage of the total, or 87.7 tons ($98.7 million). Published figures showed that "Spanish domestic gold holdings" increased from $42 million in 1941 to $110 million in 1945, an increase of more than 60 tons of gold.[65] The report noted that evidence for the estimate of 85 tons of gold acquired from Germany and the German account at the Swiss National Bank was gathered from truck drivers' statements, statements of German officials in Spain and Germany, and records of Rowak, SOFINDUS, and Transportes Marion. This gold went to the German Embassy, Abwehr office, SOFINDUS, Banco Aleman Transatlantico, and Banco Germanico (all German-controlled institutions), and the Bank of Spain.[66]

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[65] According to the report of the Spanish Comisión de Investigación of April 8, 1998, Spanish gold holdings increased from $49 million to $124.3 million between 1940 and 1945.

[66] The report entitled, "Preliminary Draft: Memorandum on Gold Acquisitions by Spain During the War," August 6, 1946, was prepared by Otto Fletcher, RG 59, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 18.

According to the Swiss Independent Commission of Experts, "Gold Transactions in the Second World War: Statistical Review With Commentary," December 1997, pp. 14, 16, 17, the Swiss National Bank sold $42.7 million in gold to Spain from the beginning of 1942, and the Reichsbank sold through the Swiss National Bank to the Spanish National Bank $20.4 million in gold. According to the paper submitted to William Slany by the Swiss National Bank on January 5, 1998, "Some Detailed Facts Relating to the Swiss National Bank's (SNB) Gold Operations During the Second World War," Spain purchased 38 tons of gold directly from the Swiss National Bank, and 1.4 tons from the Reichsbank deposit at the Bank, a total of 39.4 tons of gold ($44.3 million). According to the report presented by the Spanish Commission to the London Conference on Nazi Gold, December 1997, p. 3, the Spanish Foreign Exchange Institute (Instituto Español de Moneda Extranjera) acquired between 1939 and 1945 38.594 tons of gold (about $43.4 million) from the Swiss National Bank and 2.507 tons (about $2.8 million) from the Banco Aleman Transatlantico.

According to the report of the Spanish Comisión de Investigación of April 8, 1998, Spain acquired a total of 67.4 tons of gold ($75.8 million) through the Foreign Exchange Institute. Of this amount, 38.6 tons ($43.4 million) were bought from the Swiss National Bank, 14.9 tons from the Bank of

As evidence that these estimates were conservative, the report cited separate reports of Spanish gold acquisitions, such as a War Department report that as much as 203 tons of German gold had been trucked from Switzerland to the Foreign Exchange Institute between January 1942 and February 1944 alone, and a German diplomatic report found in June 1946 that SOFINDUS had acquired 83.2 tons in gold bars from Switzerland in 1943.[67] Postwar records of the Strategic Services Unit, the successor to the OSS, include reports about the trucking of gold from Switzerland to Spain, which became a necessity by the end of 1942 because Germany could not pay for Spanish goods in any other manner.[68]

J. Initial Negotiations on the Restitution of Looted Gold, 1946-1947

The United States, Britain, and France assumed responsibility for negotiating with wartime neutral states regarding the restitution of monetary gold looted by Germany and the distribution as reparations of the proceeds from liquidated German external assets. Unlike the comparable Allied-Swiss and Allied-Swedish negotiations held in Washington from March to July 1946, the negotiations with Spain were conducted in Madrid beginning in November, generally in tandem with the similar Allied-Portuguese negotiations in Lisbon. Seymour Rubin, a member of the U.S. delegation at the Allied-Swiss talks and head of the U.S. delegation at the Allied-Swedish talks and the negotiations in Lisbon as well, also took a hand in directing the early phases of the Madrid negotiations.[69]

England, 9.1 tons from the Bank of Portugal, .8 tons from the Bank for International Settlements, 2.5 tons from the Banco Aleman Transatlantico, 1.4 tons from the Banco Exterior de España. All the gold was in ingots of diverse origins; 56.9 tons of the gold were stored in the vaults of the Bank of Spain in Madrid, and 10.5 tons were deposited outside of Spain. The report asserts that during the War, the Foreign Exchange Institute made three purchases of gold directly from German institutions: the 2.5 tons from Banco Aleman Transatlantico in 1942, the 1.4 tons from the Banco Exterior de España in April 1944, and 3.4 tons of gold coins brought into Spain in July-August 1944 by SOFINDUS and sold to the Foreign Exchange Institute, for a total of 7.3 tons ($8.2 million). German gold also entered Spain through the diplomatic pouch for the German Embassy (1.5 tons) and was smuggled in to finance the activities of SOFINDUS to purchase wolfram and other strategic minerals (12.8-16.1 tons). In no case were these official certified purchases of gold by the Foreign Exchange Institute.

[67] "Preliminary Draft: Memorandum on Gold Acquisitions by Spain During the War," August 6, 1946, by Otto Fletcher, RG 59, Records of the Legal Adviser, Records Relating to German Assets, 1942-1959, Box 18. The War Department reports have not been found. The SOFINDUS acquisitions were reported in telegram 1032 from Madrid, June 8, 1946, RG 59, Decimal Files 1945-49, 800.515/6-846. The report does not indicate the origin of the gold SOFINDUS acquired from Switzerland.

[68] Swiss Station Report, RG 226, Job 94-00153R; message 2325 from Switzerland to Washington, April 13, 1946, ibid., Job 75-000339.

[69] Rubin attended both negotiations and participated in the opening negotiations with Spain in November 1946. Most of the day-to-day negotiations were handled by the U.S. Embassy in Madrid. See especially telegram 874 from Lisbon, October 3, 1946, RG 59, Decimal Files 1945-49, 800.515/10-346; telegram 1594 from Madrid, November 4, 1946, 800.515/11-446; telegram 969 from Lisbon, November 6, 1946, 800.515/11-646; telegram 998 from Lisbon, November 18, 1946, 800.515/11-1846; and telegram 969 from Lisbon, December 11, 1946, 800.515/12-1146.

In September 1946 the Allies presented their first note to Spain requesting a full accounting of its wartime acquisitions of gold, as well as evidence demonstrating the final destination of gold shipped to Spain and the portion of the total that was looted. In October Spain indicated it was "perfectly ready" to provide the Allies with this information and deliver any gold identified as looted. In return, Spain asked for Allied assistance in locating Spanish gold looted during the Spanish Civil War and requested that some Spanish vessels delivered to the Allies after the War be considered as payment for whatever gold Spain ultimately turned over to the Allies and the Tripartite Gold Commission.[70] The Allies maintained that these requests would be considered after Spain provided documentation on its gold transactions with the Axis.[71]

In December 1947 Spain finally allowed two U.S. officials to review the gold transaction records of the Foreign Exchange Institute. By the end of January 1948, the investigators determined that the Institute had acquired about 26.8 tons of looted gold (about $30.3 million) from the Swiss National Bank, Bank of Portugal, and Banco Aleman Transatlantico, a German institution. Of this amount, they found 8 bars weighing about 101.6 kilograms ($114,329) that had not been re-smelted and could be traced directly to the Netherlands. This gold had been purchased from Banco Aleman Transatlantico. According to the Allied negotiators, "although many of the bars...are readily identified as of looted origin, Spain cannot be held responsible [for their restitution] under Resolution VI of Bretton Woods by reason of the fact that the liability for restitution rests upon the initial purchaser.[72] In accordance with this interpretation, the negotiators asked Spain to return only the eight Dutch bars.[73]

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[70] Despatch 3163 from Madrid, November 26, 1946, ibid., 800.515/11-2646; "Draft of Sections of the History of Activities in Which the Treasury Department Participated...," January 29, 1952, by Robert J. Schwartz, pp. 26-27, RG 56, Acc. 66A-816, Special Subject Files, Box 1.

[71] Telegram 869 from Madrid, December 12, 1947, ibid., Acc. 70A-6232, Box 22.

[72] Despatch 5 from Madrid, January 2, 1948, RG 56, Acc. 66A-816, Special Subject Files, Box 2; "Draft of Sections of the History of Activities in Which the Treasury Department Participated...," January 29, 1952, by Robert J. Schwartz, pp. 26-27, ibid., Box 1. The amount of looted gold is taken from the latter source. Resolution VI, which did not address the issues of liability or restitution, asked only that the neutral countries, "uncover, segregate and hold at the disposition of the post-liberation authorities" looted gold and other assets. It reserved the Allies' "right to declare invalid any transfers of property belonging to persons within occupied territory," a reiteration of the January 1943 London Declaration and February 1944 Gold Declaration, which stated categorically that the Allies would not honor any transactions involving looted property, including gold, "which was acquired directly or indirectly from the Axis powers." The 1946 Paris Reparations Agreement set up the "gold pool," which was to include "any monetary gold which may be recovered from a third country to which it was transferred from Germany." As early as November 1946, in a meeting with Emilio Navasques, Director General of Economic Policy of the Spanish Foreign Office, Orvis Schmidt, the U.S. Treasury Department's Safehaven negotiator, explained that in examining Spanish gold records, "the criterion employed [will cover] only purchases made by neutral countries direct from Germany and not those made in good faith from other sources who, in turn, may have acquired the same gold from Germany." (Despatch 3163 from Madrid, November 26, 1946, RG 59, Decimal Files 1945-49, 800.515/11-2646) The record of this conversation was drafted by the U.S. Commercial Attaché in Madrid, Harold Randall, who took the lead in the negotiations with Spain after Seymour Rubin returned to the State Department in 1947.

The Foreign Exchange Institute's records did not account for about 2.6 tons of gold ($2.9 million) purchased directly from Germany. In a memorandum to the Director of the Institute on January 19, the Allies noted they had captured German cables showing that SOFINDUS transported the gold to Spain from its parent company in Germany, Rowak, and sold it to the Institute in the summer of 1944 for about 17.6 million Swiss francs. The Director of SOFINDUS served as a direct intermediary with the Institute, making special arrangements to "camouflage" the transaction by having the Institute pay in installments and offering to cover one installment with SOFINDUS gold deposits at the Bank of Spain while the Institute was obtaining Swiss francs. In addition, SOFINDUS stored the gold at the Bank of Spain once it arrived from Rowak.[74] Ultimately, the Allies decided not to pursue this missing gold, believing that it had probably been minted into coins and would be too difficult to identify.[75]

K. Negotiations on German External Assets in Spain, 1946-1947

The legal basis for the effort to recoup reparations was Allied Control Council (ACC) Law No. 5, the "vesting decree," under which the Allies, having assumed supreme authority in Germany in succession to the defeated German government, claimed title to Germany's external assets in the neutral nations. Spain formally recognized the ACC's authority in October 1946 at the same time it acknowledged the right of France to formally participate in the negotiations along with Britain and the United States. The Spanish negotiators agreed to hand over to the Allies German State and parastatal assets estimated at 275 million pesetas ($25 million).

Negotiations with Spain over private German assets began in November 1946. Spain rejected the Allies' rights to these assets and demanded that its claims against Germany for World War II and the Spanish Civil War be satisfied out of the semi-official holdings instead of private German assets. Shortly after the War, Spain had informally

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The Spanish Comisión de Investigación report also cites this interpretation of Bretton Woods Resolution VI. Since most of the gold purchased by the Foreign Exchange Institute came from the Swiss National Bank, Spain was not obligated to restitute it.

[73] Telegram 989 from Madrid, December 5, 1947, ibid., 800.515/12-547; "Draft of Sections of the History of Activities in Which the Treasury Department Participated...," January 29, 1952, by Robert J. Schwartz, pp. 26-27, RG 56, Acc. 66A-816, Special Subject Files, Box 1. The report of the Spanish Comisión de Investigación repeats the Allied finding that only eight bars of gold were found to be restitutable. The report points out that the Allied investigators examined the Foreign Exchange Institute accounts as well as the Spanish gold reserves in the vaults of the Bank of Spain and recognized that the rest of the gold was the legitimate property of Spain, which the Spanish Government could use in its financial dealings with Swiss, U.S., and British banks.

[74] Despatch 5 from Madrid, January 2, 1948, RG 56, Acc. 66A-816, Special Subject Files, Box 2; despatch 39 from Madrid, January 19, 1948, RG 59, Decimal Files 1945-49, 800.515/1-1948. The Spanish Comisión de Investigación report confirms this direct purchase of gold from Germany, but notes that the amount of gold was 3.4 tons ($3.8 million), with a value of 17.6 million Swiss francs. Despatch 58 from Madrid, January 28, 1948, indicates the amount of this transaction was 3.6 tons, but does not give an equivalent value in Swiss francs, RG 59, Decimal Files 1945-49, 800.515/1-2848.

[75] "Draft of Sections of the History of Activities in Which the Treasury Department Participated...," January 29, 1952, by Robert J. Schwartz, p. 27, RG 56, Acc. 66A-816, Special Subject Files, Box 1.

indicated that it had 400 million pesetas ($36.3 million in October 1946) in claims against Germany, but by early 1946 had agreed to reduce that amount to 270 million (about $24.5 million by October 1946). It also demanded that Spanish claims be satisfied ahead of those of the Allies and the other neutrals. The Allies argued that the vesting decree granted them control of all German assets and that, at that point in the talks with all the neutrals, they could not guarantee that Spanish claims would be honored first.[76]

The talks focused on several issues, including a formula for distribution of the liquidation proceeds. The Allies favored a lump sum distribution instead of a percentage formula in order to avoid delays caused by reviewing each asset individually.[77] In May 1947 the Allied plan was presented to Spanish negotiators, who expressed concern that the lump sum formula would not adequately compensate Spain for claims against Germany and that the Allies' estimate of the value of German assets (700 million pesetas; about $64 million) was too high. Spain also wanted assurances that the Allies would abide by Spanish laws governing foreign holdings, provide Spain a fair share of any foreign exchange realized during liquidation, and revise the plan so that permanent German residents of Spain could still be purchasers. The U.S. Embassy noted that there was "a wide gulf which must be bridged before a satisfactory accord can be reached."[78]

In January 1948 Spain insisted that the negotiations over assets and gold be separated. Spain declared "unequivocally" that it would "continue to restitute" any looted gold, but would not sign an agreement that did not include a reciprocal claim for Spain's lost Civil War gold. By this point, U.S. Embassy officials had reviewed the Foreign Exchange Institute documents turned over in 1946 and believed only "very insignificant quantities" of looted gold could be identified as having been bought directly from a German institution, specifically the 101.6 kilograms of Dutch gold. As a result, the Embassy argued that "nothing practical would be lost if the looted property article [were] eliminated" from the draft accord being negotiated.[79]

L. International Background to the Allied-Spanish Negotiations

During the first years of the postwar Allied negotiations with Spain, that nation was effectively ostracized from the rest of the international community. At the founding session of the United Nations in February 1945, Spain was excluded from membership because of its wartime pro-Axis record and its dictatorial regime. At the Potsdam Conference in July and August 1945, Soviet Marshal Stalin sought approval of measures to bring down the Franco regime, but President Truman, Prime Minister Attlee, and

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[76] *IARA Final Report*; unattached enclosure no. 10 to despatch 3196, November 4, 1946, RG 59, Decimal Files 1945-49, 800.515.12-446; despatch 2871 from Madrid, September 23, 1946, ibid., 800.515/9-2346.

[77] Despatch 3527 from Madrid, February 12, 1947, ibid., 800.515/2-1247.

[78] Despatch 3969 from Madrid, May 22, 1947, ibid., 800.515/5-2247; telegram 630 from Madrid, July 7, 1947, ibid., 800.515/7-747; telegram 44 from Madrid, January 17, 1948, ibid., 800.515/1-1748; despatch 36 from Madrid, January 20, 1948, ibid., 800.515/1-2048; *IARA Final Report*.

[79] Despatch 36 from Madrid, January 20, 1948, ibid., RG 59, Decimal Files 1945-49, 800.515/1-2048; despatch 46 from Madrid, January 23, 1948, ibid., 800.515/1-2348; telegram 61 to Madrid, January 29, 1948, ibid., 800.515/1-2948.

Stalin could only agree not to allow the Franco regime into the United Nations because the "present Spanish government...in view of its origins, its nature, its record and its close association with the aggressor states, does not possess qualifications necessary to justify such membership."[80] In December 1945 U.S. Ambassador Norman Armour left Madrid, and no Ambassador was appointed to Spain until 1951. Other Allied nations followed suit and withdrew their Ambassadors.

During 1946 and 1947 the United States, Britain, and France explored the question of what action, if any, to take to bring about the removal of the Franco dictatorship and allow the Spanish people to choose their own government. While U.S. policy-makers found Franco and his regime repugnant, they were also convinced that measures that threatened a renewed civil war in Spain should be avoided.[81] The British Government shared the U.S. dislike for the Spanish regime and recognized the U.S. wish to" do something" about Franco, but was convinced that economic sanctions would strengthen the regime rather than weaken it. France, which closed its border with Spain early in 1946, was more optimistic about the efficacy of economic sanctions, including a possible oil embargo, and sought in March 1946 to persuade Britain and the United States to join it in a declaration stating that as long as Franco remained in power, normal relations with Spain were impossible.[82] In an agreed joint statement on March 4, 1946, the three governments gave assurances of their intention not to intervene in Spain's internal affairs, looked forward to the Spanish people freely selecting a government once Franco had withdrawn, held out the likelihood of measures to assist Spain's solution of its extreme economic problems, and left open the possibility of terminating diplomatic relations with Spain.[83]

In May 1946 a UN special subcommittee issued a report on Spain that presented evidence of its Fascist nature, pro-Axis activities during World War II, postwar support and sanctuary to Nazi war criminals, and government repression of political opponents. Discussions in and out of the United Nations consistently excluded the possibility of intervention against Franco, including the use of economic sanctions. At its fall 1946 session, the UN General Assembly debated the Spanish issue at length and concluded that while the Franco regime was repugnant, no intervention should be encouraged against Spain and no economic sanctions ought to be imposed. Most member states, however, agreed to withdraw their Ambassadors from Madrid.[84]

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[80] *Foreign Relations*, The Conference of Berlin (The Potsdam Conference), 1945, vol. II, pp. 122-127, 133-135, 1171-1176, and 1511. Spain was finally admitted to the United Nations in 1955.

[81] The Acting Secretary of State explained the U.S. view to British Ambassador Balfour in January 1946; telegram 588, January 18, 1946, ibid., 1946, vol. V, pp. 1030-1031.

[82] The U.S. record of the exchanges among the three powers on this matter is ibid., pp. 1030-1065.

[83] For text of the tripartite statement, see *A Decade of American Foreign Policy, 1941-1949: Basic Documents,* pp. 606-607.

[84] The U.S. record of the discussions in and out of the United Nations from May to December 1946 are in *Foreign Relations*, 1946, vol. V, pp. 1065-1090. Excerpts from the report are printed ibid., pp. 1072-1074. For full text, see United Nations, *Official Records of the Security Council, 1st year, 2nd series, Special Supplement, Report of the Sub-Committee on the Spanish Question.* Ambassador Norman Armour

The United States gradually abandoned its policy of ostracizing the Franco regime by the beginning of 1950, although the first moves toward normalizing relations were made in late 1947. By this time it became clear to key policy-makers that these policies had only strengthened the regime's hold on the country, impeded Spain's economic recovery, and jeopardized the role it might play "in the event of an international conflict." An October 1947 State Department policy paper, while not specifically mentioning the negotiations over German assets, argued for a "normalization of U.S.-Spanish relations" through "relaxation...of our restrictive economic policy." Specifically, it advocated "quietly" dropping controls on the Spanish economy "so that normal trade may be resumed," followed by "the possibility of financial assistance."[85] In February 1948 the Embassy informed the Spanish Government that the United States desired a strong Spanish economy and that once the "question of gold" was settled it would allow private investors to extend "very substantial" credits to Spanish industry.[86]

M. Allied-Spanish Accord on German External Assets, May 1948

On May 10, 1948, the Allies and Spain reached an "Accord...for the Expropriation of German Enemy Property in Spain and the Liquidation of Balances and Payments Between Spain and Germany." The Allies were to receive the proceeds from the liquidation of all official and quasi-official assets, estimated at that time to be worth 225-250 million pesetas (about $20-23 million). As for private assets either in Spain on May 5, 1945, or "falling due" by April 30, 1948, the parties agreed to a percentage distribution. Spain would receive 20 percent of the first 100 million pesetas (about $9 million) realized, 22½ percent of the next 100 million, 25 percent of the next, 27½ percent of the next, and 30 percent of any amount exceeding 400 million (about $36 million). Based on this formula, the 18 members of the Inter-Allied Reparations Agency (IARA) would receive about 76 percent of the first $36 million realized. In addition, in a note exchanged at the signing of the accord, the United States pledged to release over $64 million in Spanish assets that had been frozen in the United States since the War.[87]

At the time of the agreement, the Allies projected about 400 million pesetas (about $36 million) from private assets. Initially the proceeds were to be deposited in the Spanish Foreign Exchange Institute and could not "be transferred abroad or used for investment in Spain without the special agreement of the Spanish Government." In an attached "Financial Protocol" to the accord, Spain indicated that it would authorize "transfers, cessions or investments" of these funds "within the limits and capabilities" of its economy."[88] None of the proceeds, however, was slated for the $25 million fund for

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left Madrid on December 1, 1945; Chargés d'Affaires ran the Embassy until February 1951 when Stanton Griffis was appointed Ambassador.

[85] *Foreign Relations*, 1947, vol. III, pp. 1092-1097.

[86] Ibid., 1948, vol. III, p. 1024.

[87] The amount of Spanish assets in the United States is from the memorandum for Surrey (Le/E) to Thorp (A-T), February 5, 1948, RG 59, Decimal Files 1945-49, 800.515/1-2348.

[88] The text of the Accord is in 62 Stat. 2061; *IARA Final Report*; "Inter Allied Reparation Agency, German External Assets, the Accord with Spain," September 1, 1948, ibid., Box 4; despatch 175 from Madrid, March 24, 1948, ibid., RG 59, Decimal Files 1945-49, 800.515/3-2448; despatch 215 from

non-repatriable victims of the Nazis established by the January 1946 Paris Reparations Agreement, largely because the Allies believed they would meet this amount in their agreements on German assets with the Swiss, Swedish, and Portuguese. Furthermore, they did not believe that pesetas would prove much value to the fund.[89]

The accord tasked Spain with identifying and liquidating these assets, but gave the Allies, as "representatives of the Government of Germany," the right to "intervene" at any point in the process. The value of these properties was to be determined by a "fair appraisal," and any disputes between the two sides were to be mediated by a "disinterested person chosen by both." Once Spain fulfilled the accord's terms, it would be freed from "all classes of claims and trade or payments balances between Spain and Germany." The Allies, "in the name of the Government of Germany," guaranteed that whatever German Government succeeded the Allied Control Council "shall confirm" for Germany the accord's provisions.[90]

N. Allied-Spanish Agreement on Looted Gold

The Allies also reached an agreement with Spain on looted gold through an exchange of notes on April 30 and May 3, 1948. Spain agreed to turn over 101.6 kilograms of fine gold ($114,329) identified as looted from the Netherlands and any other looted gold identified before April 30, 1949. In return, the Allies' note and all public pronouncements acknowledged that Spain "had not been aware [at] acquisition or subsequently" that the gold had been looted.[91] Spain delivered the gold to the Tripartite Gold Commission's gold pool account at the Bank of England in February 1949.[92] Spain's action freed it from all restrictions on trading gold under the February 1944 Gold Declaration. The United States hoped that Spain would use its gold reserves as collateral for private credits from U.S. banks, furthering the new U.S. policy of normalizing Spain's economic relations and promoting Spanish economic development.[93]

In January 1949 the State Department approved a request by Chase National Bank of New York (now Chase Manhattan), to use gold held by the Spanish Government and the Spanish Foreign Exchange Institute as collateral for a $25 million loan to the

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Madrid, March 30, 1948, ibid., 800.515/3-3048; Telegram 232 from Madrid, April 7, 1948, ibid., 800.515/4-748; despatch 197 from Madrid, April 7, 1948, ibid., 800.515/4-748.

[89] Seymour Rubin and Abba Schwartz, "Refugees and Reparations," in *Law and Contemporary Problems, War Claims,* School of Law, Duke University, vol. 16, Summer 1951, No. 3, p. 383.

[90] 62 Stat. 2061.

[91] "Draft of Sections of the History of Activities in Which the Treasury Department Participated...," January 29, 1952, by Robert J. Schwartz, p. 27, RG 56, Acc. 66A-816, Special Subject Files, Box 1. Copies of the notes are printed in 11 Bevans 708.

[92] 1971 Report of the Tripartite Gold Commission, volume I.

[93] *Foreign Relations*, 1948, vol. III, pp. 1041-1043. The report of the Spanish Comision de Investigacion confirms that Spain did use its gold reserves for this purpose: between 1950 and 1958 the gold acquired by the Foreign Exchange Institute during the War was used to finance imports and reduce the Spanish balance-of-payments deficit. By the end of 1958, the reserves were reduced to 2.3 tons.

Institute.[94] At the time, Spain was experiencing a severe drought and the loan was sought to purchase wheat.[95] Later that year the amount was increased to $30 million and a second New York bank, National City Bank (now Citibank), got approval for similar gold-backed loans totaling $20 million. The gold for both these loans was to be held at the Federal Reserve Bank of New York. A letter from New York to the other member Federal Reserve Banks, described the impending transaction as follows:

> "In the course of the negotiations...it developed that part of the gold which will serve as collateral for these loans had been looted by the Germans from Belgium and The Netherlands, resmelted into Prussian Mint bars, and subsequently acquired by Spain from other neutral countries which had purchased it from Germany. However, in our consultations with the State and Treasury Departments, we have been informed that the latter regards the gold as tainted only in the hands of the first purchaser and that at the time of the Tripartite settlement with Spain the Spaniards had disclosed the origin of the gold so that it is now regarded by the Treasury Department as eligible for purchase by the United States."[96]

The Federal Reserve Bank ascertained that 42 percent of the gold used as collateral for the $20 million loan had been looted from the Netherlands and Belgium, re-smelted in Prussian Mint bars, and sold to Switzerland, which in turn sold it to Spain.[97] At the direction of Citibank, these bars were re-smelted by the U.S. Assay Office into U.S. assay bars.[98] The $30 million loan from Chase Manhattan was collateralized with

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[94] Letter from Achilles for the Secretary of State to Barth, Vice President of Chase National Bank, January 14, 1949, NARA, RG 82, Records of the Federal Reserve System, Entry 1, Subject File, Box 654, Spain-Instituto Espanol de Moneda. Spain had begun negotiating with Chase National Bank as early as September 1946 for such a loan. The Bank came to the State Department then to see if there were any objections to making a $10 million gold-collateralized loan to Spain. State advised the Bank at that time that until an agreement was reached with Spain, the Treasury Department would not buy the gold and the Bank ran the risk of suit in international court from countries seeking to recover it. (Memorandum of conversation, September 20, 1946, RG 59, Decimal Files 1945-49, 800.515/9-2046)

[95] *Foreign Relations,* Microfiche Publication, *Current Economic Developments, 1945-1954,* Issue 239, Fiche 46 of 83, January 30, 1950, pp. 3-4.

[96] Letter from Federal Reserve Bank of New York Vice President L.W. Knoke to Federal Reserve Bank of Boston, March 30, 1950, attached to a memorandum from Dembitz to Vest, April 14, 1950, RG 82, Federal Reserve System, Entry 1, Subject File, Box 654, Folder Spain - Instituto Espanol de Moneda. The letter quoted a Treasury Department assertion that Treasury "regarded the gold as tainted only in the hands of the first purchaser, so that as to the gold sold first to Switzerland and then by Switzerland to Spain, such gold was not considered tainted in the hands of the Spanish." A 1949 letter from the State Department to the Chase National Bank stated: "No claim can be laid to any gold held by the Spanish Government or the Insitituto on the basis that such gold was looted and no limitations exist any longer to the disposition of Spanish monetary holdings for the reason that it could include looted gold." (Letter from Achilles for the Secretary of State to Barth, Vice President of Chase Natioinal Bank, January 14, 1949, RG 82, Federal Reserve System, Entry 1, Subject File, Box 654, Spain-Instituto Espanol de Moneda)

[97] Notes for Knoke's report to directors...on Spanish loan, March 23, 1950, ibid.

[98] On December 22, 1997, in response to press accounts that raised the fact that a portion of the gold received by the Federal Reserve Bank of New York was re-smelted by the U.S. Assay Office, the Federal Reserve Bank wrote the following to the State Department: "The services of the U.S. Assay

other Prussian Mint bars, which had been converted into British bars and whose origin had not been traced in favor of accepting the assurance of Chase Manhattan that the gold had not been looted.[99]

In June 1951 Citibank extended its original loan from $20 to $30 million. By this time Spain had repaid $10 million of its original loan, but wanted the additional funds to make up a $20 million "cushion against emergencies."[100] This extension was collateralized with 761 bars of gold, worth approximately $10.5 million at the time. Based on Treasury and State Department records, 237 of these bars were looted Dutch gold (worth about $3.3 million), 187 of which Spain received from the German account at the Swiss National Bank and 50 of which it purchased from Portugal. In addition, 21 were looted Belgian bars (worth about $300,000), 3 of which came from the German account and 18 of which were purchased from Portugal. The remaining 503 bars "appear[ed] to be clean." According to a July 1951 Federal Reserve Bank memorandum, Spain had not informed the TGC about the 190 bars (worth about $2.6 million) it received from the German accounts (187 from the German account at the Swiss National Bank and 3 looted Belgian bars from the German account in Belgium), as it was obligated to do under the Bretton Woods agreement and the May 1948 Allied-Spanish gold accord. When the Bank asked Treasury whether these bars could be considered tainted since they had not been "released" by the TGC, Treasury responded that it, "with concurrence of the State Department, takes the attitude that Spain acted in good faith in negotiating [the May 1948 settlement] and that said 190 bars should be deemed to have given a release."[101]

Office, which was an arm of the Treasury, were routinely used by the Bank's account holders both before and after the War to convert portions of their gold holdings into bars which met the requirements of the international gold market....As a result of gold settlement agreements reached by the Allies, Prussian Mint bars were generally given a clean bill of health and were traded and resmelted like other gold bars in the years after the War." (Letter from James R. Hennessy, Counsel to the Federal Reserve Bank of New York, to Under Secretary of State Stuart E. Eizenstat, December 22, 1997)

[99] Notes for Knoke's report to directors…on Spanish loan, March 23, 1950, RG 82, Federal Reserve System, Entry 1, Subject File, Box 654, Spain-Instituto Espanol de Moneda.

[100] Copy of telegram 1204 from Madrid, June 23, 1951, RG 84, Embassy Madrid, Classified General Files (Security-Segregated Records) 1936-1949, Box 184.

[101] Davis to Files, July 11, 1951, attachment to letter from Hennessy to Eizenstat, December 22, 1997. It is possible that the 190 looted bars identified as coming from the German account at the Swiss National Bank was the $2.6 million in gold that the Allies could not find in their investigation of the Spanish Foreign Exchange Institute's records. Under the interpretation of Bretton Woods Resolution VI that the Allies used after 1946 in deeming Spain responsible only for the gold it had acquired directly from Germany, Spain would have been liable to return this gold since it came from the German account at the Swiss National Bank and had not been purchased by Switzerland. Furthermore, in the May 1948 accord, Spain agreed "to make further restitution of any additional identifiable monetary gold taken by Germany, should it be found that any such gold may have been acquired by Spain." Spain could have been shown to be in violation of the agreement when it offered the bars as collateral, but the Allies agreed in the 1948 accord not to consider "claims for any such additional gold presented after April 30, 1949." (11 Bevans 708) It is not possible to determine from the available sources whether Spain knew of the gold before April 1949.

O. Implementation and Final Settlement of the Allied-Spanish Accord on External German Assets, 1948-1959

Liquidation of German companies in Spain went smoothly at first, although with some delays over documenting the amount of German investment in enterprises, deciding on classes of exemptions, and determining a fair price for seized properties.[102] In November 1949, in a paper prepared for Secretary Acheson's meetings on Germany with the British and French Foreign Ministers, the State Department noted that approximately 130 million pesetas in State and private assets had been liquidated and distributed to the IARA. While this amounted to $11.7 million in official rates, the paper noted that this overvalued the peseta and that at the current rate in use by the Embassy the total would be closer to $3.9 million. In commenting on the negotiations with the neutrals, the paper reported: "In light of the failure of the Allies to realize almost anything...since the war and the tortuous negotiations which have been carried on...it is doubtful whether anything...[close to the projections at that time] will ever be forthcoming."[103]

In late 1950 the Allies and West Germany began negotiations over "contractual" arrangements to end the postwar military occupation of the country as part of the Allies' effort to integrate the Federal Republic into the Western European economy and the European Defense Community. One aspect of the contractual arrangements was how Germany would honor future reparations agreements with the formal neutrals.[104]

During the contractual negotiations, the German press began attacking the 1948 accord and Spain's expropriation of German assets. Spain therefore, in July 1951, halted the distribution of liquidation proceeds, despite Allied protests, to two bank accounts set up in Spain for the IARA. The total yield from liquidation at that point was about 447.5 million pesetas (about $40.7 million), of which Spain had received 47.5 million pesetas (about $4.3 million), the Allies 335 million pesetas (about $30.5 million), and the remaining 65 million pesetas (about $5.9 million) due to the IARA were blocked by the Spanish Government. At the time of the Spanish action, only 77 of 122 companies identified as German had been liquidated, and Spain had made no effort to uncover other types of assets, such as securities, real estate, or patents.[105]

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[102] *IARA Final Report.*

[103] "History of the Reparations Problem," GEC D-3/1, November 2, 1949, and "Statistical Data on German Reparation Receipts Other Than Receipts From Eastern Europe and the Soviet Zone," November 1, 1949, both RG 59, Conference Files 1949-1963, CF1 to CF 8, Box 1. Documentation on the meeting, which focused on the program for dismantling German industrial plants, is in *Foreign Relations,* 1948, vol. III, pp. 294-430.

[104] Acheson, *Present at the Creation*, pp. 713-717. See also *Foreign Relations*, 1951, vol. III, Part I, pp. 1163-1308. The Federal Republic of Germany was established in 1949.

[105] *IARA Final Report.* One report indicates that 213 million pesetas of the Allied proceeds came from official assets. (Air pouch 1053 from Madrid, April 16, 1952, RG 84, Embassy Madrid, Classified General Files, 1950-1952, Box 173) A detailed chart showing the distributions to the various IARA nations is an attachment to despatch 296 from Brussels, October 1, 1951, RG 59, Decimal Files 1950-54, 262.0041/10-151.

In May 1952 the Allies and West Germany reached an agreement in their contractual negotiations in which Germany assumed responsibility for compensating the former German owners of liquidated assets.[106] Negotiations between the two sides continued throughout the 1950s as Spain bargained for a larger percentage of the proceeds and assurances from West Germany that it would not hold Spain responsible for compensating German owners of expropriated properties.[107] Agreement was reached in April 1958: Spain agreed to stop the liquidation of German assets and turn the remainder over to Germany, and Germany agreed not to hold Spain liable for claims resulting from the earlier liquidation. The Spanish-West German agreement made way for an Allied-Spanish agreement on August 9, 1958, in which Spain agreed to release the 65 million pesetas due the IARA since 1951. Between 1951 and 1958, an additional 81.2 million pesetas had been realized from liquidation but not distributed because of the breakdown in the negotiations. Of this amount, the Allies agreed to give Spain about 61 million pesetas (about $1 million at the 1959 exchange rate) and deliver 13.9 million pesetas ($200,000 at the 1959 rate) to Czechoslovakia and Yugoslavia, which had been due the money since 1951. This agreement became effective through an exchange of notes on July 2, 1959, and terminated the obligations arising from the May 10, 1948, accord.[108]

Spain, which experienced severe inflationary pressures after 1958 and whose currency underwent enormous devaluation, ultimately delivered 402.441 million pesetas to the IARA, 335 million liquidated and delivered as of 1951 ($30.5 million at the 1951 exchange rate), 65 million delivered as of 1959 ($1.1 million after the July 1959 peseta devaluation), and 2.441 million ($40,683 after the July 1959 devaluation) that the IARA Final Report describes as remaining in its Spanish accounts "after payment of various expenses in Madrid and discharge of residual commitments." This amounted to about $31.6 million. To this amount the IARA added approximately $1.2 million in various currencies found in German State offices when the Spanish turned the buildings over to the Allies in 1946, making the total $32.8 million.[109]

The final phase of Allied-Spanish dickering over the implementation of the 1948 accord coincided with Spain's further integration into the international community as a de

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[106] The May 26, 1952, contractual agreement, entitled *Convention on Relations Between the Three Powers and the Federal Republic of Germany and Related Conventions*, was published by the Office of the Executive Secretary of the U.S. High Commissioner for Germany. The 1952 convention never came into force because the French National Assembly refused to ratify it. An amended convention was signed on October 23, 1954, and came into force on May 5, 1955. The amended version contained no changes to the relevant paragraphs on German external assets; for text, see *American Foreign Policy, 1950-1955: Basic Documents,* vol. I, pp. 557-607.

[107] *IARA Final Report*; memorandum from Smith to the Ambassador, October 1, 1953, RG 84, Embassy Madrid, Classified General Files, 1953-1963, Box 1.

[108] *IARA Final Report.* The 81.2 million peseta figure is from despatch 146 from Madrid, September 4, 1958, RG 84, Embassy Madrid, General Records, 1956-1958, Box 3. It does not indicate what became of the remaining 6.3 million pesetas ($100,000 in 1959). The final accord is printed in 11 UST 2274.

[109] *IARA Final Report.* The Report, which based calculations on 1938 dollar values, valued the 402.441 pesetas at $6.4 million. The peseta was markedly devalued in May 1957 to $1 = 42 pesetas and again in July 1959 to $1 = 60 pesetas.

facto Cold War ally of the West, along with the steady improvement in U.S.-Spanish relations. The U.S. Congress agreed to appropriate $100 million in aid for Spain under the Mutual Security Appropriations Act of 1952, and in September 1953 the United States and Spain concluded agreements that permitted the United States to establish a number of air and naval bases in Spain and as a result of which the United States was prepared to extend to Spain $226 million in military assistance.[110] Spain was admitted into the United Nations in December 1955. By December 1959, when President Dwight Eisenhower became the first U.S. President to visit Spain, following visits by Secretary of State Dulles in 1955 and 1957, the United States had supplied Spain with $538 million in goods and services, excluding commodities that Spain imported from the United States as a result of $94 million in loans from the Export-Import Bank.[111]

[110] *American Foreign Policy, 1950-1955: Basic Documents*, vol. I, pp. 1696-1698.
[111] *Foreign Relations*, 1958-1960, vol. VII, pp. 713-715 and pp. 742-750.

Allied Relations and Negotiations With Sweden

A. The Allies and Sweden's Wartime Neutrality

The geography of Sweden's wartime position, surrounded by German armed forces in Norway, Denmark, and Finland and cut off by the blockade imposed by both the Germans and the Allies, shaped the character of its neutrality stance and the Allies' economic warfare policies alike. Until 1943, Allied economic relations with Sweden were regulated by the Anglo-Swedish War Trade Agreement of December 1939, as modified to respond to the changing military situation in Scandinavia. The December 1939 agreement, in which both countries undertook to maintain the exchange of goods at the normal level (i.e., that of 1938), had two main provisions: Britain would not impede Swedish imports of reasonable quantities of commodities, and Sweden promised not to re-export certain specified goods and to maintain its total exports to Germany at 1938 levels. During the first several years of the War, Britain was satisfied that Sweden honored the terms of the 1939 trade agreement. German occupation of Denmark and Norway in April 1940 made the threat of German invasion of Sweden real. Sweden's neutrality was confirmed and defined by an exchange of letters between King Gustav and Adolf Hitler that same month. Swedish wartime diplomacy sought to ward off German invasion by adopting a neutrality that sacrificed some of Sweden's independence and made significant concessions to Germany.

While the Allies understood Sweden's strategic plight and were sympathetic to a fellow democracy, concern persisted over Sweden's contribution to Germany's war effort. Throughout most of the War, Sweden managed to avoid becoming an economic province of Germany, which now occupied Sweden's pre-war markets in Europe and controlled its ability to conduct commerce via both the Baltic and the Atlantic. The Allies sought to encourage Swedish independence and decried and worked against Swedish actions that supported Germany. Anglo-Swedish trade agreements and subsequent Allied-Swedish agreements after 1941 allowed Sweden to import controlled amounts of essential goods and products in exchange for limitations on their re-export and reductions of other exports to Germany. From early in the War, Allied experts felt that if exports of Swedish iron ore and wood products could be eliminated, Germany's ability to carry on the war would be severely injured.[1]

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[1] "Trade Policy Toward Sweden: A Summary of Essential Facts on Sweden's Relations with the Enemy and with Area outside the Blockade," prepared by the Board of Economic Warfare, Office of Economic Warfare Analysis, November 3, 1942, gave the following assessment of the importance of Swedish iron ore:

"In terms of iron content, the high grade Swedish ore delivered in 1941 amounted to 18 per cent of the total available to Germany, but actually the Swedish ore is even more important than this ration indicates: the loss of the Swedish supply would require the mining and transport additionally of 20 million tons of low grade German and French ore, of 6 million tons of coal and 4 millions ton of coke. Loss of the Swedish wood products would materially reduce the already restricted supply of textiles in Axis Europe and would tend further to reduce agricultural production (by the loss of paper binding twine) and mining

The Allies were also concerned that Sweden did not sufficiently resist German demands for concessions that directly aided Germany in its conduct of the War in Europe. In July 1941 a fully-equipped German division crossed Sweden from Norway to Finland; through much of the War, Sweden permitted German troops and matériel to transit Sweden to and from Norway and Finland. According to U.S. estimates, 250,000 trips by German troops (presumably on leave traveling in "sealed cars") crossed Sweden in each direction, and 250,000 tons of equipment transited Sweden. German forces in Finland after the Finnish decision to go to war against the Soviet Union in the summer of 1941 used Swedish railways for the movement of troops and supplies to and from Germany. Sweden permitted German military supply ships to sail in Swedish territorial waters and even provided naval escorts for them. German courier aircraft transited Swedish air space.[2]

Sweden attempted to offset its concessions to Nazi Germany by maintaining political relations and essential economic ties with the Allies. Without energy sources of its own, Sweden desperately needed the fuel and other supplies that could only come from the West. Germany selectively lifted its blockade of the entrance to the Baltic Sea to allow such Swedish-Allied commerce as a reward for Swedish cooperation. Early in the War, Britain and the United States did not seek to draw Sweden into the War but rather favored a neutral Sweden that would better restrict its contribution to the German war effort. Sweden also continued a pattern of limited covert cooperation with Britain and the other Allies, including the transport of military-age Norwegian internees and the occasional repatriation of Allied military air crews forced down in Sweden. Sweden also attempted to support both Denmark and Norway against Germany. In 1943 Sweden rescued from German persecution as many as 7,000 Danish Jews, and protested, albeit unsuccessfully, the German deportation of over 1,200 Norwegian teachers and students.[3]

U.S. entry into World War II immediately threatened Sweden's precarious neutrality. The requirements of the U.S. war effort pre-empted supplies, particularly oil and rubber, that could have been exported to Sweden even in limited quantities. Without

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output (by the loss of pit props)." (RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies)

[2] "Trade Policy Toward Sweden," ibid.

[3] In a conversation with Acting Secretary of State Robert Lovett on October 26, 1948, then Swedish Ambassador to the United States Erik Boheman described Sweden's wartime success in warding off Germany's recurrent considerations to invade Sweden. Boheman's conversation was mainly aimed at explaining Sweden's current reluctance to enter into any sort of a military alliance with the West aimed at the Soviet Union. The record of his conversation with Lovett summarized Boheman's view of the Swedish attitude on "neutrality": "He deplored the use of the word 'neutrality' which was most inaccurate and misleading, since this neutrality points only one way and has never taken into consideration the possibility of conflict with the Western powers. I [Lovett] remarked that we had run through a number of terms like 'non-intervention' and 'non-belligerence', and he [Boheman] said that perhaps one of these would be better adapted to the situation. He wanted to make it clear that there was no failure on the part of Sweden to discriminate between the two sides; Swedes were practically unanimous in siding with the West. Sweden continued to use the word 'neutrality' as a convenience because of its long tradition, though it was perhaps something of a blind which did not correctly designate the Swedish attitude." (Memorandum of conversation, October 26, 1948, RG 59, Executive Secretariat Records, Lot 53 D 444)

these supplies, the Swedish economy and even the possibility of military resistance to Germany would be seriously compromised. Within the U.S. Government, the State Department tended to take a sympathetic view of Sweden's wartime plight. The Treasury Department and the military were more inclined to resent Swedish concessions to the Germans and to deny Sweden needed supplies until it adopted more pro-Allied policies. U.S. economic warfare actions against Sweden in 1942 focused on detaining ships with safe conduct permits from Germany from carrying cargoes of supplies to Sweden.

B. Allied Negotiations With Sweden To Halt Swedish Wartime Exports and Concessions to Nazi Germany

It was a generally held view among Allied economic warfare experts early in the War that the German war effort depended on iron ore from Sweden and oil from the Soviet Union and that without these materials, the War would come to a halt. Sweden supplied 40 percent of Germany's total iron supply in 1939 and 1940, but the proportion dropped off to 25 percent during the war years as Germany exploited resources in occupied Europe. Sweden exported 10 million tons of iron ore to Germany in 1939, and in 1943 exports still totaled 9.5 million tons. British experts during and after the War were convinced that Sweden's provision of iron ore was the most valuable of all of the contributions of neutral countries to the German war effort. Not only was the quantity of iron ore important, but the high quality of the ore made steel making more efficient, and the use of Swedish ships for transport eased delivery problems for Germany.[4]

The Swedish Government sent Erik Boheman, Secretary General of the Foreign Ministry, to London and Washington in the autumn of 1942 to obtain a relaxation of the blockade of oil and rubber for Sweden. Prime Minister Winston Churchill and Foreign Secretary Anthony Eden made clear that the United Kingdom did not want Sweden to enter the war, but they urged on Boheman the need for more constraints on Swedish concessions to Germany. In October 1942 Boheman traveled to Washington to argue Sweden's case with the various U.S. Government agencies responsible for economic warfare policies. He met with, among others, Assistant Secretary of State Dean Acheson, an old friend from their school days in Stockholm.

After a month of negotiations with Swedish officials and among Washington agencies, in November 1942 President Roosevelt, responding to a suggestion from Churchill, directed the immediate release of 30,000 tons of oil for Sweden and fixed a quarterly export level to Sweden of that quantity, provided that Sweden release two Norwegian ships in Sweden to sail to Britain with cargoes of urgent materials, including ball-bearings and ball-bearing-making machinery. The United States also insisted on

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[4] Allied perceptions of Swedish trade, particularly iron ore and ball-bearing exports, are discussed authoritatively and in detail in Medlicott, *The Economic Blockade,* vol. II, pp. 173-205. Medlicott summarized his principal findings in *The War and the Neutrals*. Gerhard Weinberg, *A World At Arms: A Global History of World War II* (New York, 1994), pp. 73-74 and 77-78, surveys German sources regarding Sweden's trade with Germany during the War as well as the argument among scholars as to whether Sweden could have stopped the War by halting the export of iron ore. He concludes that Sweden could not have because the German economy had other sources to draw upon.

other Swedish concessions, including reduction of the export of iron ore to pre-1939 levels, curtailed transit through Sweden by the German military, and the end of Swedish naval convoys for German ships in the Baltic. Since Sweden felt it could not release the two Norwegian ships without drawing a reaction from Germany, including the ending of safe passage for any Swedish vessels out of the Baltic, this part of the agreement was delayed for nearly a year.[5]

Beginning in 1943 U.S. diplomacy focused more sharply on pressing Sweden to abandon its policy of concessions to Germany and to move toward full support of the Allies. In January 1943 Secretary of State Hull instructed the U.S. Legation in Stockholm to inform the Swedish Government that "the determining factor in our relations with Sweden during the war must be the degree to and manner in which Sweden is prepared to and does resist Axis demands which are contrary to Sweden's rights as a neutral and independent democratic nation." The United States would no longer be willing "to continue to accept the pleas of expediency and force majeure as excuses for giving in to Germany" in such matters as the transit of German troops and military equipment across Sweden. The United States would not acknowledge any moral claim by Sweden to urgent supplies such as oil unless Sweden "gave concrete evidence of her determination to stand up for her rights against Germany and use the weapons at her disposal to that end." Hull cited Sweden's control of iron ore exports to Germany as one such weapon.[6]

Hull's message inaugurated another round of trade negotiations in London among U.S., British, and Swedish officials aimed at revising the 1939 Anglo-Swedish agreement and placing commerce with Sweden on a basis that more accurately reflected the military and economic realities of the growing certainty of Allied victory. The negotiations led to an Allied-Swedish agreement in London in September 1943 under which the United States and Britain allowed an increase in exports to Sweden, including critically needed oil and rubber, in exchange for which Sweden abrogated its agreements with Germany for the transit of German military matériel (exclusive of oil) and German soldiers across Sweden, further reduced iron ore exports, ended Swedish naval escorting of German ships in the Baltic, and reduced ball-bearing exports.[7]

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[5] *Foreign Relations*, 1942, vol. III, pp. 359-375, and Acheson, *Present at the Creation,* pp. 50-51.

[6] Telegram 26 to Stockholm, January 7, 1943, *Foreign Relations*, 1943, vol. II, pp. 739-741, and Hull, *Memoirs*, vol. II, pp. 1345-1346

[7] *Foreign Relations*, 1943, vol. II, pp. 741-815, in particular despatch 11348 from London, September 24, 1943, pp. 805-815, for the text of the agreement. Swedish exports of iron ore to Germany, which had averaged more than 9 million tons annually from 1939 to 1943, were reduced to 7 million tons in 1944. In a decrypted message of August 16, 1943, to the Japanese Foreign Ministry, the essential text of which was made available to U.S. leaders in a "Magic" summary of August 27, 1943, the Japanese Ambassador in Berlin reported on information received from the German Foreign Office on how Sweden and Germany were circumventing the announced termination of the 1940 agreement under which German soldiers on furlough and munitions passed through Sweden on their way to Norway. The Ambassador's report stated in part: "As a matter of fact, however, soldiers on furlough can still travel through Swedish territory. I am now giving you very secret information, for the fact is that, as long as the contents of the goods can be told at a glance, Sweden will wink at shipments of army clothing, foodstuffs and certain

Secretary of War Henry Stimson and Secretary of the Navy Frank Knox opposed the September 1943 agreement negotiated by the State Department and the Board of Economic Warfare (the predecessor of the Foreign Economic Administration) and argued that oil sent to Sweden would aid Germany, that Swedish exports and concessions to Germany continued, and that the United States had received no commensurate benefits from Sweden. Secretary of State Hull countered that Caribbean oil sent to Sweden in Swedish ships was no drain on American supplies or tankers, that Sweden had in fact made important concessions to the Allies, and that Allied shipments would bring about a substantial reduction in Sweden's economic assistance to Germany. President Roosevelt settled the dispute between State and War and Navy by siding with Secretary Hull and in favor of the Allied-Swedish agreement.[8]

C. Sweden's Cessation of Trade With Germany

During the last 18 months of World War II, unremitting Allied diplomatic pressure and the crumbling of the Nazi war effort moved Sweden gradually to reduce and ultimately to end its trade to Germany. In implementation of the September 1943 agreement, Swedish exports of iron ore to Germany, which had averaged more than 9 million tons annually during the War, were reduced to 7 million tons in 1944. The export of Swedish ball-bearings to Germany was also steadily reduced during 1944. During the War, Germany made extravagant use of ball-bearings, and almost a third of the total German production went into aircraft production. Nearly 90 percent of the approximately 100 million bearings used by Germany annually was manufactured in Germany, and 60 percent of these were produced in Schweinfurt by a subsidiary of the Svenska Kullagerfabriken (SKF) owned by the Enskilda Bank of Stockholm, which was owned by the Wallenberg family.[9]

In 1943 Allied war planners singled out the German ball-bearing industry as a potential bottleneck in the German war economy. In an effort to eliminate this critical component in German war production, U.S. bombers mounted major high-risk air raids on Schweinfurt during August and October 1943. The 16 raids against these ball-bearing targets, of which those on August 17 and October 14 were the largest, were the most disastrous American daylight bombings of the war. More than 50 U.S. heavy bombers were lost and many others damaged in the two major raids. The bombing temporarily set back but failed to cripple German ball-bearing production, and Germany reorganized and

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munitions which heretofore have been shipped as ordinary commercial freight. In other words, a formula has been worked out satisfactory to both governments." Message No. 940 from Berlin to Tokyo, August 16, 1943, and "Magic" Diplomatic Summary, August 27, 1943, RG 457, Historic Cryptographic Collection, Pre-World War I Through World War II, Diplomatic Message Translations, Box 377 and "Magic" Diplomatic Summaries, 1942-1945, Box 6, respectively.

[8] Hull, *Memoirs,* vol. II, pp. 1346-1347.

[9] United States Strategic Bombing Survey, Vol. 53a, *The German Anti-Friction Bearing Industry* (Washington, D.C., 1947), pp. 7 ff. and Martin Fritz, "Swedish Ball-Bearings and the German War Economy," *Scandinavia Economic History Review* (1975), pp. 29-32.

decentralized this production so as to avoid further efforts to destroy it from the air.[10] Postwar analyses determined that the Allied bombing campaign reduced German ball-bearing production by at least a quarter, but German industrial countermeasures and improvisations, including the determination that fewer ball-bearings were necessary for various production purposes, warded off any serious consequences. Moreover, the Allied-Swedish trade agreement of September 1943, which halted exports of ball-bearings, neglected to impose restrictions on exports of high-grade steel used to manufacture ball-bearings and appears to have allowed Sweden, largely through an SKF subsidiary, to undertake to provide Germany with 30,000 tons of ball-bearing steel, largely offsetting the drop in the export of finished ball-bearings.[11]

After the unsuccessful air campaign against the Schweinfurt ball-bearing plants, the SKF plant in Sweden assumed even greater importance to U.S. officials. SKF was the largest foreign supplier of ball-bearings to Germany, supplying up to 70 percent of German imports.[12] The FEA, whose analysis of German ball-bearing shortages contributed to the Schweinfurt bombing campaign, followed up the raids by taking the lead in negotiating a special $5 million preclusive purchase deal between the U.S. Commercial Corporation (USCC) and SKF for a portion of SKF's June-October ball-bearing production. The agreement was concluded in April 1944. In March the Joint Chiefs of Staff had expressed to Secretary Hull their deep concern over the continued flow of SKF ball-bearings to Germany and sought his assistance in halting it. He replied in a May 19 letter that reflected the appreciation within the U.S. Government of Sweden's force majeure arguments for moving slowly in cutting off exports to Germany:

> "No matter how unrealistic it may appear to us here, the factor which in the final analysis will control the Swedish Government's decision...is its conviction that full compliance with our demands will almost certainly expose Sweden to Germany military attack....This conviction is so strong that the Swedes, in their disbelief that their present bearing exports to Germany are as important as we say they are, strongly suspect that our real purpose in pressing them on this matter is not to obtain a reduction in ball-bearings but to involve them in war with Germany."[13]

The Allied diplomatic effort throughout 1944, which involved extended and difficult negotiations with the Swedish Government and had the attention of President Roosevelt and Prime Minister Churchill, gradually pressed Sweden to cut back further its

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[10] Wesley Travers Craven and James Lea Cate, eds., *The Army Air Force in World War II:* vol. II, *Europe: Torch to Pointblank, August 1942-December 1943* (Chicago, 1949), pp. 685-687 and 699-707; "Report to Congress on Operations of the Foreign Economic Administration," September 25, 1944, p. 15, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared by the Division; "Preclusive Operations in the Neutral Countries in World War II," pp. 43-44, ibid., Records of the Analysis Division, Historical Monographs Prepared Outside the Division.

[11] *The War and the Neutrals*, pp. 75-76, and Fritz, "Swedish Ball-Bearings and the German War Economy," pp. 21-24.

[12] Fritz, "Swedish Ball-bearings and the German War Economy," pp. 29, 32.

[13] Hull, *Memoirs*, vol. II, p. 1347.

exports to Germany. Germany's collapsing military fortunes in the summer and fall of 1944 after D-Day and the approach of Allied and Soviet armies to Germany itself, made U.S. leaders less willing to concede the danger of a German attack on Sweden. Secretary Hull considered threatening to take over Swedish companies in the United States and to deny Sweden critical supplies after the end of the War unless Sweden cut its ties with Germany In a September 13, 1944, telegram to U.S. representatives in Stockholm, Secretary Hull made clear his feeling that the danger to Sweden of a German retaliatory attack had passed:

> "We fail to appreciate the validity of the arguments used by the [Swedish] Foreign Minister in defense of Sweden's so-called 'neutrality policy'. In our opinion Sweden's policy has been based upon a determination to keep out of the war at all costs rather than one of strict neutrality. Hence, she has granted concessions to one belligerent group and then the other in accordance with fluctuations of the war. Now that the people of Sweden, as well as those of the United Nations, realize the defeat of Germany is a forgone conclusion, we cannot comprehend why the Swedish Government still hesitates to sever all trade with Germany."[14]

By October 1944 Sweden was willing to lay aside its fears of German attack in reprisal for ending concessions to Germany, and all ball-bearing exports to Germany were halted. In November Sweden agreed that all exports to Germany would cease, including iron ore. At the same time the Swedish Government agreed to release several hundred interned Allied fliers and allowed the Air Transport Commands to begin flights to Sweden.[15]

As the military balance on the Eastern Front swung in favor of the Soviet Union, Sweden's entry into the War or its provision of more explicit support for Allied armies became an issue. At the Tripartite Conference of Foreign Ministers in Moscow in October 1943, Soviet Foreign Minister Molotov proposed that the three Allies ask Sweden to provide air bases for the war against Germany, and he sought to draw a parallel between Swedish bases and those that Britain and the United States had gained in the Azores from Portugal. Secretary Hull, representing the view of President Roosevelt, would not rule out the possibility of seeking such bases in Sweden, but explained that the United States would not support a request for air bases because it would divert resources from the upcoming landing in Western Europe in 1944. Similarly, Foreign Secretary Eden felt that bases in Sweden would not be as effective as those already available in Britain.

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[14] *Foreign Relations,* 1944, vol. IV, p. 638.

[15] Ibid., pp. 456-705; Hull, *Memoirs*, vol. II, pp. 1347-1348; Acheson, *Present at the Creation*, pp. 58-59. There appear to have been no German reprisals as a result of the cessation of trade and German authorities even granted safe conduct passes for Swedish ships entering the Baltic past the German blockade. (W.W. Calgren, *Swedish Foreign Policy in the Second World War*, translated by Arthur Spender (London, 1977), p. 206)

Prime Minister Churchill agreed with Eden and President Roosevelt that both Turkey and Sweden should come into the War. He did not think that either of them would be overrun, and every new enemy would accelerate the defeat of Germany: "It would be a great advantage to bring Sweden into the war. We do not think the Germans have the strength to undertake a heavy invasion of Sweden. We should gain a new country and small but good army. Our gains in Norway would be far reaching." Churchill felt that air bases in Sweden were not necessary, and he wondered what was behind the Russian proposal.[16]

In advance of the Heads of Government Meeting at Tehran in November 1943, Allied diplomatic and military leaders took stock of the Soviet desire to draw Sweden into the War. Foreign Minister Molotov reiterated the Soviet insistence that Sweden cooperate in the War when he made a public statement criticizing Sweden's neutrality during a reception in Moscow on November 11 marking the Bolshevik Revolution. The Swedish Minister in Moscow, who seemed to be seeking advice, told Ambassador W. Averell Harriman that Sweden was ready to take "certain risks," but his government was not ready to go very far: "He pointed out that it was the ambition of the King to lead his people through the war without the suffering that would come from participation. He talked about the difficulties that neutrality to the end would present in their permanent relations with Moscow."[17]

On November 18, 1943, in preparation for the Tehran Conference, the Combined Chiefs of Staff submitted a paper on operations to defeat Germany and its satellites that called for the planning of military operations in Scandinavia: "Such plans should envisage collaboration with the U.S.S.R., with particular reference to opening communications to Sweden and developing a situation favorable for Sweden to enter the war."[18] At the Tehran Conference in December 1943, Churchill took the opportunity to express the importance he saw in "Finland's being out of the war and Sweden's being in by the time of 1944 landings in France," to which Stalin expressed assent.[19]

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[16] The U.S. Record of the Second Meeting of the Tripartite Conference at Moscow, October 20, 1943; telegram 472 from Churchill to Roosevelt, October 23, 1943; telegram from Roosevelt to Hull, October 26, 1943; memorandum by the Secretary on Turkey and Sweden, October 28, 1943, *Foreign Relations*, 1943, vol. I, pp. 586, 621, 644, and 655-656.

[17] Telegram SD 1 from Harriman to the President, November 11, 1943, ibid., The Conferences at Cairo and Tehran, 1943, pp. 182-183. According to a decrypted message from the Mexican Ambassador in Stockholm to the Mexican Foreign Ministry on September 1, 1943, a summary of which was made available to U.S. leaders a few days later, the Acting Swedish Under Secretary for Foreign Affairs commented upon the German sinking of two Swedish fishing vessels, affirmed that Sweden would not be intimidated by Germany and intended to protect the rights of her nationals and, if necessary, "defend them to the last by force of arms." ("Magic" Diplomatic Summary, September 9, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 7)

[18] C.C.S. 398, November 18, 1943, *Foreign Relations*, The Conferences at Cairo and Tehran, 1943, p. 212.

[19] U.S. record of the Tripartite Luncheon Meeting at Tehran, December 1, 1943, ibid., p. 591. According to the decrypted report of the Mexican Minister in Stockholm to the Mexican Foreign Ministry on December 18, 1943, made available in summary form to U.S. leaders on December 24, 1943, Sweden was moving to improve relations with the Soviet Union. The Minister reported that, "At a dinner last night

D. Sweden and the Safehaven Program

U.S. and British efforts to enlist the Swedes in the wartime Safehaven program to identify German external assets and prevent their being used to help the German war effort or for a revival of Nazism after Germany's defeat, began in earnest in 1944. Economic reporting was a basic element of the Safehaven intelligence activity that was conducted in Sweden from early in the war. Reporting officers were able to determine the extent of Swedish commerce with Germany, particularly exports of iron ore and ball-bearings. The Office of Strategic Services (OSS) also developed extensive information on gold and currency transactions.[20]

As the end of the War approached, the United States and Britain found themselves unable to agree on economic security objectives with Sweden. Britain favored a more limited program, focused on the control of gold. The United States advocated including all enemy assets as stipulated in Bretton Woods Resolution VI and using the prospect of renewed trade agreements with the Swedes as an inducement for broader cooperation. In spite of these divisions, the Allies' entreaties to Stockholm appeared to have had some effect. In September 1944 the Swedish Parliament (Riksdag) voiced its support for the Safehaven program, noting that Sweden felt a responsibility to assist in the postwar recovery of Europe, and in February 1945 Sweden began a census of its gold and foreign exchange holdings to determine how much might be linked to Axis investors.[21]

By spring 1945 the British agreed to the broader U.S. objectives. A joint Safehaven proposal for Sweden was drafted, and the U.S. Embassies in Lisbon and Madrid were advised to use it as the basis for their Safehaven talks.[22] Informal talks in Stockholm began in late April. The Swedes noted their support for the principles of Bretton Woods Resolution VI and their desire to not "assist the Germans in hiding assets" in their country, but indicated some confusion over the details of the resolution. The Allies described the implications of the resolution for the Swedes and its importance in thwarting any Nazi plans for postwar resurgence.[23]

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by the Russian Chargé, the Assistant Chief of Political Affairs of the Swedish Foreign Office made a speech in which he thanked Russia 'for what she has done for all of us,' adding that 'thanks to her, our future has been made secure.' The words of this public official, who spoke practically as a belligerent, made a profound impression on those present. Since the Swedish diplomatic service is known to be an example of discipline and organization, it is believed that he spoke on the authority of his superiors." ("Magic" Diplomatic Summary, December 24, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 8)

[20] Eizenstat Report, pp. 43-44.

[21] Telegram 1730 from London, March 7, 1945, RG 59, Decimal Files 1945-49, 800.515/3-745; telegram 1497 from Stockholm, April 21, 1945, ibid., 800.515/4-2145; memorandum from Rubin to Hilldring, December 2, 1946, ibid., 800.515/12-246.

[22] Memorandum from Rubin to Hilldring, December 2, 1946, ibid., 800.515/12-246; telegram 3157 to London, April 22, 1945, ibid., 800.515/4-1445.

[23] Details of those meetings and particularly the responses of the Swedes, their interests and concerns, are in telegram 1496 from Stockholm, April 21, 1945, ibid., 800.515/4-2145. The results of subsequent meetings held in July are contained in telegram 2544 from Stockholm, July 20, 1945, ibid., 800.515/7-2045.

By the summer these negotiations produced tangible results. Sweden passed a series of decrees to control German property by restricting its sale or dispersal, and expanded the range of the census to include all types of German property. The Foreign Capital Control Office (FCCO), an administrative and investigative body which had adopted tightened exchange control regulations in November 1944, was charged with implementing the new decrees and penalizing violators. In January 1946, after Allied prodding, Sweden expanded these laws to include controls over German subsidiaries.[24] The FCCO was augmented to include more than 80 experts and personnel and was headed after March 1946 by former Justice of the Supreme Court, Emil Sandstrom, who was well-known for his pro-Allied sympathies.[25]

E. Preparation for the Postwar Allied-Swedish Negotiations on Looted Gold and German External Assets

The OSS made an important contribution to understanding the nature and scale of wartime German-Swedish transactions on gold and other assets. The OSS intelligence branch, X-2, reported on clandestine wartime German projects in Sweden to acquire urgently needed economic assets, including the flow of gold and other valuables. From at least August 1944, the OSS had reports that the German Legation in Stockholm was selling diamonds looted from the Netherlands State Bank on orders from the German Reichsbank. Activity was documented involving individuals and private firms who smuggled gold into Sweden or exchanged it for gasoline or other goods. The evaluation of this latter activity was corrected after the War by official information about wartime gold transfers to the Swedish Riksbank. Information also reached the OSS during the War about the role of the Swedish Enskilda Bank, owned by the Wallenberg family, which appeared to have received more than $4.5 million from the Reichsbank in 1940 and 1941, and was suspected of having acted as a purchasing agent through intermediaries for the German Government of bonds and securities in New York.[26]

The perceived close relationships among the Wallenberg family, the Enskilda Bank, and German-owned or German-controlled firms in the United States caused concern among U.S. authorities throughout World War II. Suspicions that the Enskilda Bank was serving as an intermediary for German businesses preceded the outbreak of the

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[24] Memorandum from Rubin to Hilldring, December 2, 1946, ibid., 800.515/12-246.

[25] "Report on Swedish Negotiations With Respect to German External Assets and Related Questions," undated, by Rubin, copy transmitted by Rubin to Hilldring, December 2, 1946, ibid., 800.515/12-246. [Hereafter cited as Rubin Report on Allied-Swedish Negotiations]

[26] "Germans Selling Diamonds in Stockholm," August 11, 1944, RG 226, Entry 108, Washington Registry Special Intelligence Field Files 1943-1951, Box 316, Folder T-2200. The report is graded "C-3," the lowest possible rating. Murphy to Mowinckel, June 4, 1945, "X-2 Case Materials Illustrating German Safehaven Practices," ibid. See also "Enemy Capital in Sweden," August 14, 1944, ibid., a low-grade intelligence report, but typical of the kind of information obtained. Despatch 7063 from Stockholm, "Transmission of Information Concerning Shipments of Gold Between Sweden and Germany," Safehaven, May 20, 1946, ibid., Box 25, Folder 143; London 165: Safehaven no. 413, "Financial Contraband, Stockholms Enskilda Bank, Stockholm," May 8, 1946, ibid., Entry 183, Washington Secret Intelligence/Special Funds Records, Box 27, Folder 157.

War and continued after the War, particularly as it applied to the American Bosch Company, a wartime manufacturer of important components for engines for automobiles, aircraft, and ships. In what American officials came to regard as a measure to "cloak" German assets in the United States, the Wallenbergs' Enskilda Bank in May 1940 bought American Bosch Corporation (ABC), the U.S. subsidiary of the German firm Robert Bosch, G.m.b.H., with an arrangement to return ABC to its German owners after the War. The purchase, which appeared to be an attempt by Enskilda to protect Bosch's American properties from facing the risk of confiscation in case of war, was formally canceled in December 1941, although in fact the Wallenbergs and Enskilda may not have relinquished ownership of ABC and assisted Bosch AG until December 1944 by hiding its ownership of these and other companies in the United States.

These suspicions persisted, despite undertakings by the Swedish Government and its Embassy in Washington assuring U.S. authorities that Swedish firms, including Bosch, operating in the United States were bona fide Swedish-owned businesses without German interests or control. The suspicions were greatest among Secretary of the Treasury Morgenthau and his staff, who were persuaded of the Wallenberg and Enskilda Bank's continuing connections with German financial and industrial enterprises and their role in helping German financial activities in Sweden. The U.S. Safehaven program acquired evidence after the War that the Wallenbergs' Enskilda Bank financed German wartime economic undertakings, including the construction in Sweden of naval ships that were passed off as fishing boats. In the immediate postwar years, the suspicions about the Wallenberg and Enskilda activities led to their blacklisting, intensive investigations, and the blocking of the assets of American Bosch. The long wrangle between the Enskilda Bank and the U.S. Government over the Bank's alleged wartime collusion with Germany was settled out of court in 1950. In September 1950, on behalf of the U.S. Government, then Attorney General J. Harold McGrath concluded with Enskilda Bank a settlement of the Bank's law suit providing that the Bank receive $2.6 million (the U.S. Government received nearly $5.2 million) from the proceeds of the sale in the United States by the Alien Property Custodian of American Bosch Corporation.[27]

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[27] U.S. Government records addressing Wallenberg and Enskilda Bank issues during and after World War II account for a large body of documentation scattered through files at the National Archives and Records Administration, some of it open to public research at the end of 1996. These include RG 84, Embassy Stockholm, 1936-1952; Records of Under Secretary of State Acheson, especially the Records Pertaining to Economic Warfare; and Records of the Division of Economic Security Controls (Lot 54 D 324). Among the records of the Department of the Treasury, RG 131, Foreign Funds Control and Acc. 56-66A-816, Miscellaneous Cases; among the records of the Foreign Economic Administration, RG 169, Records of the Intelligence Security Staff, Safehaven. State and Justice Department records regarding the extended litigation over the Bosch case, Vargos, et al. v. McGrath (or Clark), are in Box 330 of RG 131. In an article in the Swedish periodical *Dagens Nyheter* in February 1997, Gerard Aalders and Susanne Berger cite a U.S. Justice Department report describing the German Bosch parent corporation wartime measures to reacquire American Bosch, including the deposit of 1,150 kilograms of gold obtained from the Reichsbank and deposited in Swiss bank accounts on behalf of Enskilda.

In November 1945 Sweden provided U.S. Treasury Department officials with reports concerning Swedish gold transactions during the War.[28] In comparing these records with data on German gold holdings at the time of the Swedish purchases, Treasury believed that Sweden had acquired $22.7 million of looted Belgian gold. The State Department expert on German gold movements, Otto Fletcher, estimated Germany's wartime sales of gold to Sweden of $18.5 million and Swiss purchases of gold from Sweden of $17 million.[29] For negotiation purposes, the Allies reduced the claims to about $17 million.[30] On March 8, 1946, British and French representatives met with officials from the Treasury and State Departments to discuss Swedish gold movements during the War. Although the United States had detailed accountings, the information about Swedish gold reserves was imprecise. The reserves had increased during the War, but the Allies could not determine if this was due to looted gold. In at least one instance, the Germans had attempted to sell gold looted from Belgium to Sweden, but the Swedes had apparently refused to buy.[31]

As in the case of the other wartime neutral nations, the Allies approached Sweden on the restitution of looted monetary gold and the application of German external assets in accordance with policies worked out at the Potsdam Conference in July 1945, the Paris Reparations Conference of November 1945-January 1946, and the assumption by the Allies of authority in occupied Germany through the Allied Control Authority. On February 11, 1946, the U.S. Embassy informed the Swedish Government of the details of ACC Law No. 5, vesting title of German assets in other countries to the Occupation authorities, and invited a delegation to Washington to discuss its implementation in Sweden. Although Sweden consented to the talks, it expressed grave concerns over the Allied claims to these assets.[32] On April 5 the Swedish Foreign Office advised the

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[28] Schwartz to Schmidt, February 8, 1946, RG 131, Entry 243, Box 256, Enforcement 1946.

[29] "German Movements of Gold (Estimate)," prepared by Otto Fletcher, February 5, 1946, RG 59, Decimal Files 1945-49, 800.515/5-646. According to SICE, "Gold Transactions," pp. 14, 16, and 17, the Swiss National Bank sold no gold to Sweden, but the Reichsbank sold to the Swedish Riksbank via the Swiss National Bank $20.4 million in gold, and the Reichsbank transferred directly to the Riksbank $4.6 million in gold, a total of $25 million. A paper submitted to William Slany by the Swiss National Bank on January 5, 1998, "Some Detailed Facts Relating to the Swiss National Bank's (SNB) Gold Operations During the Second World War," agrees that Sweden purchased no gold from the Swiss National Bank, but did purchase 17.9 tons ($20.1million) from the Reichsbank deposit at the Bank. The Swedish Independent Archives Inquiry report of December 1997 to the Sveriges Riksbank, entitled "Sweden's Gold Transactions With Nazi Germany" (Section 1,3,3,2 in particular) calculates total gold purchases, acquisitions, and transfers from the Reichsbank to the Riksbank during the 1940-1944 period at 59,697 kilograms ($67.2 million), of which 7,311 kilograms was looted Belgian monetary gold and 8,607 kilograms was looted Dutch monetary gold.

[30] Memorandum on Swedish-German gold transactions from January 1939 to December 1945, May 27, 1946, RG 56, Acc. 66A-1039, Box 6; Background of Programs, ibid., Acc. 66A-816, Box 1.

[31] Memorandum of conversation, March 8, 1946, RG 59, Decimal Files 1945-49, 800.515/3-846. Details on the Swedish Riksbank's gold transfers to the Swiss National Bank during the war are in letter from Rooth to Smith, May 17, 1946, ibid., 800.515/5-1746; despatch 7063 from Stockholm, May 20, 1946, ibid., 800.515/5-2046.

[32] Note 901 to Swedish Royal Minister of Foreign Affairs, February 11, 1946, with attachments, ibid., 800.515/3-446; telegram 410 from Stockholm, March 4, 1946, ibid., 800.515/3-446; memorandum

Embassy that Sweden would have to put the decision to the Riksdag, where it would probably be defeated "based on belief that Allied claim not valid in international law and hence violation private property rights."[33] In addition, the Swedes requested that their assets in the United States, frozen after the War, be released prior to negotiations and that they be allowed to inspect Swedish property in Germany. The Allies refused, claiming that both issues needed to be addressed in formal negotiations.[34]

By the end of March 1946, the United States believed it had "almost complete information concerning German assets in Sweden" and began pushing for negotiations in Washington to determine their final disposition.[35] The United States and Britain developed a joint strategy shortly thereafter, paying particular concern to their defense of ACC Law No. 5.[36] The Allies argued that due to Germany's surrender and the June 1945 Declaration of Berlin, they had assumed "supreme authority with respect to Germany including all powers possessed by German Government" and the "right to marshal its assets, internal and external." The State Department hoped that an early start of negotiations with Sweden might inspire the Swiss to expedite their lagging negotiations with the Allies over restitution of gold and the use of German external assets.[37] Although Sweden remained unmoved by the Allied legal claims to authority over German assets, it agreed to begin negotiations in Washington. As a "partial quid pro quo," however, Sweden again requested that the Allies acknowledge its right to conduct its own investigations about the status of German property in Sweden rather than jointly with the Allies. Although nothing formal was decided, by late April the Allies seemed inclined to approve the trade-off.[38]

On the eve of the Allied-Swedish negotiations in Washington in the spring of 1946, important difficulties arose that seriously compromised the ability of Allied negotiators to reach an agreement that would provide adequate restitution and reparation undertakings by Sweden. Sweden had instituted satisfactory controls over German assets, but the issue of disposition of the proceeds from the liquidation of these assets

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of conversation between representatives of the Swedish Foreign Office and U.S. Embassy in Stockholm, March 19, 1946, ibid., 800.515/3-1946. The Swedish complaints over ACC Law No. 5 prompted the U.S. Embassy to work up a detailed legal analysis and justification of the law. (Despatch 6857 from Stockholm, March 29, 1946, ibid., 800.515/3-2946)

[33] Telegram 638 from Stockholm, April 5, 1946, ibid., 800.515/4-546.

[34] Rubin Report on Allied-Swedish Negotiations, December 2, 1946, ibid., 800.515/12-246.

[35] Memorandum from Klayman to Martin, March 29, 1946, ibid., 800.515/3-1946.

[36] Telegram 4216 from London, April 26, 1946; ibid., 800.515/4-1646; and telegrams 706 and 707 from Stockholm, both April 18, 1946; ibid., 800.515/4-1846.

[37] Text of note to Stockholm transmitted in telegram 790 to Stockholm, April 18, 1946; ibid., 800.515/4-1846; telegram 802 to Stockholm, April 18, 1946; ibid., 800.515/4-1846; memorandum from Hickerson to Cumming, April 24, 1946; ibid., 800.515/4-2446; Rubin Report on Allied-Swedish Negotiations, December 2, 1946, ibid., 800.515/12-246.

[38] Telegram 977 to Berlin, April 26, 1946; ibid., 800.515/4-2646; letter to the Foreign Minister, May 4, 1946, attached to a letter from Stockholm to the Secretary of State, May 4, 1946, ibid., 800.515/5-1446; telegram 784 from Stockholm, May 6, 1946, ibid., 800.515/5-646; letter from Surrey to Aminoff, May 13, 1946, ibid., 800.515/5-1346; Rubin Report on Allied-Swedish Negotiations, December 2, 1946, ibid., 800.515/12-246.

raised important difficulties between Sweden and the Allies. Above all Sweden (stubbornly in the view of U.S. negotiators) maintained that the assets in Sweden belonged to individual Germans and not to any German government, and that any successor government to the Hitler regime, even the Allied Control Council, had no rights over individual German assets in Sweden. Allied negotiators were further handicapped by failure to agree on the use of economic sanctions against Sweden should the negotiations over German assets break down or proceed unsatisfactorily. Although the U.S. and French Governments supported the use of sanctions, the British Government was strongly opposed, and no agreement was reached concerning the use of sanctions should the Allied-Swedish negotiations break down.[39]

F. Allied-Swedish Negotiations in Washington, May-July 1946

Formal Allied-Swedish negotiations on monetary gold and German external assets began in Washington on May 29, 1946. The negotiations were undertaken by the United States, Britain, and France on behalf of the other wartime Allies as a result of undertakings reached at the Paris Reparations Conference of November 1945-January 1946. It was originally intended by the three Allies that the negotiations with Sweden would be the first with the neutral nations, but Switzerland's demand that its negotiations begin first resulted in postponement of the Swedish talks. The formal invitation to Sweden was extended on May 4, 1946, to begin discussions on May 13 in Washington. Sweden delayed accepting until after another effort to refute the legal basis for Allied claims to German assets. The U.S. delegation was headed by Seymour Rubin, Deputy Director of the State Department's Office of Economic Security Policy and senior member of the U.S. team at the recently concluded Allied-Swiss negotiations.[40] The U.S. team also included representatives from the State and Treasury Departments. The British delegation was headed by Francis W. McCombe of the Foreign Office; the French delegation by Christian Valensi, Financial Counselor of the French Embassy in Washington; and the Swedish delegation by Judge Emil Sandstrom, President of Sweden's Foreign Capital Control Office (FCCO). Under Secretary of State for Economic Affairs William Clayton opened the conference with a statement in which he made clear that there was no intention in the discussions to criticize Sweden's neutrality policies during the War, but rather he urged the delegates to concentrate on the large issues: the claims of innocent victims of a war of aggression to compensation from the holdings of the aggressor nation and the desire to obtain security and peace.[41]

From the outset, Sweden concurred with the Allies on the danger that German assets might be used to promote a revival of Nazism, but continued to maintain that by

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[39] Rubin Report on Allied-Swedish Negotiations, December 2, 1946, ibid., 800.515/12-246.

[40] Rubin's appointment by Secretary of State James F. Byrnes as chief U.S. negotiator was approved by President Truman on May 15, 1946. Byrnes explained that Randolph Paul, who led the U.S. team in the Allied-Swiss negotiations of March-May 1946, would shortly resign as the President's special representative to conduct such negotiations. (Memorandum from Byrnes to Truman, May 24, 1946, Truman Library, Truman Papers, Records of Office of the State Department Executive Secretariat)

[41] Rubin Report on Allied-Swedish Negotiations, December 2, 1946, RG 59, Decimal Files 1945-49, 800.515/12-246

international law Sweden, not the ACC, had the right to decide how to liquidate these assets in Sweden. The British advocated basing an agreement on Sweden's moral obligation to help in the reconstruction of Europe, and they convinced the U.S. delegates that if they persisted in arguing for the vesting order on the basis of international law, the issue would go to international arbitration, which the Allies would likely lose. Seymour Rubin subsequently explained that the Allied legal position was further weakened by the excellent record of accomplishment of the Foreign Capital Control Office, which had been at work for a year before the negotiations began. The work of the FCCO and its cooperation with the Allied representatives lent considerable weight to the Swedish contention that Swedish and Allied efforts were already well-coordinated. Rubin also suggested that Sweden's application for membership in the United Nations also reinforced its claim to assume legal responsibility for the allocation of liquidated assets. During the discussions about gold at the Washington talks, the Swedish delegation made clear its readiness to return gold looted by Germany from the occupied countries but was uneasy about accepting the contention of the Allied delegations that all gold sold by Germany after a certain date, probably January 1943, was looted because Germany's own reserves, including hidden reserves and gold obtained from the Soviet Union and seized from Austria and Czechoslovakia, were exhausted by that time.[42]

Negotiations moved swiftly and were concluded by July 3, but final agreement was delayed while approval was obtained from the Swedish Foreign Ministry. The Allied and Swedish delegations signed a formal accord on July 18. Of the estimated 378 million kroner (more than $90 million) in German assets in Sweden, Sweden agreed to turn over approximately three-quarters to the Allies for purposes provided for under the Paris Reparations Agreement. The $66.5 million in liquidated German assets were to be allocated to the Allies in the following manner:

- 50 million kroner (about $12.5 million) would go to the Intergovernmental Committee on Refugees (later the International Refugee Organization) for the rehabilitation and resettlement of non-repatriable victims of Nazism.
- 75 million kroner (about $18 million) was declared to be a "voluntary contribution" by the Swedish Government to the Inter-Allied Reparations Agency (IARA), excluding the amounts the United States, Britain, and France would get. It was agreed that decisions on the particular distribution of these

[42] Seymour Rubin wrote a full account of the Allied-Swedish negotiations of May-July 1946, entitled "Allied-Swedish Accord on German External Assets, Looted Gold, and Related Matters," published in Department of State *Bulletin*, July 27, 1947, pp. 155-161. The text of the accord, July 18, 1946, was printed on pp. 162-168 of the same issue. A detailed account of the negotiations is included in Clarke, "The Safehaven Project," pp. 186-223, RG 169, Records Assembled by the Historian, Material on the Safehaven Project, 1943-1945, Box 991. Robert J. Schwartz included a summary account of the Swedish negotiations in "Draft of Sections of the History of Activities in Which the Treasury Department Participated with Respect to the Recovery and Distribution of Gold Looted by the Germans during the War and the Liquidation of German Assets Located Outside of Germany," January 29, 1952, RG 56, Acc. 66A-816, Special Subject Files, Box 1.

$18 million in liquidated assets would be made only after discussions between Sweden and the three major Allies on behalf of the IARA.

- 150 million kroner (about $36 million) would go to assist in preventing disease and unrest in Germany. This sum would be placed in a special account in the Swedish Riksbank that could be used for purchases in Sweden or other countries of essential commodities for the German economy.

In return for the allocation of assets and the return of monetary gold, Sweden gained some concessions from the Allies. The accord permitted Swedish and German owners of liquidated property to be compensated in German currency; allowed for a Swedish mission to travel to the U.S., British, and French Zones of Occupied Germany to inspect Swedish properties; and called for the "defrosting" as soon as possible of Swedish assets frozen in the United States (estimated at the time at $200 million). The Allies also agreed to the immediate removal of the "black lists," the procedure under which the U.S. Department of the Treasury identified a company or individual as being banned from trade and other transactions with the United States under wartime "Proclaimed Lists."[43]

Little difficulty was encountered by the Allied and Swedish negotiators in resolving the issue of restituting looted gold. The Swedish delegation made clear from the beginning of the negotiations that Sweden would restitute looted gold that it had purchased from Germany. Agreement was reached early on that any gold removed by Germany from occupied Europe would be regarded as looted. The negotiations turned on the two remaining issues: first, precisely how much looted gold had been purchased from Germany and would be returned to the Allies, and secondly, what to do about such purchased looted gold that was subsequently sold to third countries.

The negotiators arrived at the following terms of agreement regarding gold, resolving the various matters at issue, and incorporated them into paragraphs 4 (a), (b), and (c) of the Allied-Swedish Accord and a separate statement made by the Allied delegation. Sweden agreed to the principle to restitute to the Allies "all gold acquired by Sweden and proved to have been taken by the Germans from occupied countries, including any such gold transferred by the Swedish Riksbank to third countries." July 1, 1947 was agreed upon as a deadline for the occupied countries to make claims regarding gold looted from them. On the basis of the evidence already available to the negotiators but subject to further checking, Sweden agreed to restitute 7,155.32664 kilograms of gold (worth approximately $8 million) corresponding to the looted Belgian monetary gold acquired by Sweden. These undertakings were understood to be a "Gold Declaration."

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[43] Memorandum from Rubin to Hilldring, August 14, 1946, RG 59, Decimal Files 1945-49, 800.515/8-1446; Division of Monetary Research Activity Report, ca. July 1946, attachment to Division of Monetary Research Activity report, ca. October 11, 1946, RG 56, Acc. 66A-816, Box 19; "Draft of Sections of the History of Activities in Which the Treasury Department Participated...," January 29, 1952, by Robert J. Schwartz, p. 15, RG 56, Acc. 66A-816, Special Subject Files, Box 1; Schwartz to Richards, April 28, 1947, ibid., Looted Gold: General; Background of Programs, 29 January 1952, ibid.; Schwartz to Richards, April 28, 1947, ibid.

Limitations on Sweden's obligations to restitute gold already transferred to third countries were effected by the negotiators by an article in the Accord and a separate statement by the Allied delegation. The article explained that "The Allied Governments undertake to hold the Swedish Government harmless from any claims deriving from transfers from the Swedish Riksbank to third countries of gold to restituted according to the above declaration." In a separate statement, the Chairman of the Allied delegation further refined the Sweden's immunity to claims for looted gold transferred to third countries:

> "In connection with the paragraph in the letters exchanged today dealing with looted gold, we wish to confirm to you our understanding that, in view of the evidence already produced and checked, no further claim will be presented to Sweden by the Government signatory to the Paris Reparation Agreement or their banks of issue with regard to any gold acquired by Sweden from Germany and transferred to third countries prior to June 1, 1945."[44]

The Allied-Swedish Accord committed Sweden to restitute at least $8 million of looted Belgian monetary gold. It also held open the door for other claims by occupied countries, and Netherlands did subsequently file a detailed claim for 8.606 kilograms (about $9.7 million) of looted gold within the July 1, 1947 deadline. Sweden, however, delayed the restitution of the gold to Belgium and to the Netherlands while it confirmed the accuracy of the information presented in the claims. Allied-Swedish negotiations dragged on and were not completed until 1955.

G. Evaluation of the Allied-Swedish Agreement of July 18, 1946

In a preliminary summary report on these negotiations addressed to Under Secretary of State for Economic Affairs Will Clayton and to Assistant Secretary for European Affairs H. Freeman Matthews soon after the conclusion of the agreement, U.S. negotiator Seymour Rubin noted that: "Generally, it seems agreed that the negotiations have ended successfully." The talks proceeded smoothly and with an "absence of the bitterness" that characterized the Swiss negotiations, and the final understanding was "a firm step forward in the removal of possible irritants between Sweden and the Allies. From the point of view of either economic security or reparations, it seems agreed that the understanding achieves our ends." Rubin stressed that the important economic security objectives of the Allies had been fully achieved, and the policies and procedures instituted by Sweden would ensure that all German influence or resources would be

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[44] For text of the agreement, see 61 Stat. 3191-3237. See also "Draft of Sections of the History of Activities in Which the Treasury Department Participated...," January 29, 1952, by Robert J. Schwartz, pp. 15-16, RG 56, Acc. 66A-816, Special Subject Files, Box 1; and Rubin, "Allied-Swedish Accord...," Department of State *Bulletin*, July 27, 1947, p. 160. The Allied-Swedish negotiations of May-July 1946 and the resulting accord of July 1946 are summarized in "Sweden and the Nazi Gold," Sweden's contribution to the London Conference on Nazi Gold, December 1997, which is one part of the projected report of the Swedish Commission on Jewish Assets in Sweden at the Time of the Second World War. This Swedish official report also reviews in some detail the Swedish view of the post-accord negotiations over Belgian and Dutch looted gold.

liquidated.[45] In comparison to the 50-50 split of German assets with the Swiss, the Swedes agreed to deliver almost 73 percent of their holdings.[46] He commented that there had been little or no difficulty in reaching agreement in the gold negotiations:

> "It was agreed from the outset that any gold removed by Germany from the occupied areas, on whatever pretext or through whatever method, would be considered as having been looted. Discussions on the gold question were therefore reduced merely to the technical question of identification of the gold transferred by Germany to Sweden during the course of the war which had been removed from the occupied countries. The books on both sides were opened and, as a result, agreement was reached."[47]

In his long final report of December 1946, Rubin wrote:

> "In conclusion, it should be noted that the Swedish negotiations were conducted in a much more harmonious manner than the Swiss. Justice Sandstrom, at the conclusion of the negotiations, expressed his sincere appreciation for the manner in which the Allied Chiefs of delegations, and in particular their Chairman, the Chief of the American delegation, had conducted themselves and had cooperated with the Swedish delegation in meeting their admittedly somewhat difficult legal position. While some irritation was encountered with respect to the drafting of the exact language to be included in the understanding reached, at no time did the negotiations descend to the acrimonious stage that was reached during the Swiss discussions. In effect, these negotiations have provided a means for the satisfactory and harmonious elimination of Allied economic warfare controls with respect to Sweden, while at the same time yielding to the Allies not only a satisfactory elimination of German interests in Sweden but also a fully adequate realization of the principal part of the proceeds obtained from such liquidation."[48]

Within the State Department, there were some strong reservations regarding the accord negotiated with Sweden. Assistant Secretary of State for Occupied Areas John Hilldring was briefed in mid-August by W. A. Rudlin of his staff. Rudlin told Hilldring that the Allied-Swedish accord was better than that reached with the Swiss, and was "as good as could be expected given (a) the firm attitude of the Swedes, and (b) the implications of the decision by the State Department not to use sanctions or the threat of them in negotiation with the neutrals on German assets."

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[45] Memorandum by Rubin, July 24, 1946, copies to Clayton and Matthews, RG 59, Decimal Files 1945-49, 800.515/7-2446.

[46] Memorandum by Rubin, July 24, 1946, ibid.; Rubin Report on Allied-Swedish Negotiations, December 2, 1946, ibid., 800.515/12-246. Minutes of the negotiations held on July 13, 1946, which include details of looted gold and other assets in Sweden, were attached to despatch 1503 to Stockholm, July 30, 1946, ibid., 800.515/7-3046.

[47] Rubin, "Allied-Swedish Accord on German External Assets," Department of State *Bulletin*, July 27, 1947, p. 160.

[48] Rubin Report on Allied-Swedish Negotiations, December 2, 1946, RG 59, Decimal Files 1945-49, 800.515/12-246.

Rudlin identified three major drawbacks to the Allied-Swedish accord. First, it was very complicated, made up of 30 different exchanges of letters with the Swedish delegation, and called for the liquidation of German assets on such a piecemeal basis as to be impossible to summarize. Second, the accord incorporated Sweden's refusal to recognize the authority of the Allied Control Council or the validity of ACC Law No. 5. Instead of handing over the proceeds of the liquidated assets to the Allied Control Council or the Allies directly, Sweden undertook to allocate the proceeds directly for the support of refugees or to make "voluntary contributions" to member states of the Inter-Allied Reparations Agency (IARA) that Sweden found appropriate. Finally, the 150 million kroner ($36 million) assigned by Sweden under the accord for the support of the German economy might appear to relieve the Allies of that much of the burden of occupation costs, but because the sum was in the Sveriges Riksbank, the United States and the other Allies would have to expend the equivalent of 150 million kroner in Sweden, and the Swedish economy would be the beneficiary.[49]

H. Implementation of the Allied-Swedish Accord of July 1946

While the negotiators of the Allied-Swedish accord of July 18, 1946, were satisfied with what they felt was a successful resolution of the difficult issues of restitution and reparation, implementation proved to be difficult and contentious. Once the Swedish Parliament formally ratified the accord in November 1946, a portion of the accord was speedily executed. In July 1947 the Preparatory Commission of the IRO received from Sweden 50 million kroner (about $12.5 million) for the support of non-repatriable refugees in Europe, of which a considerable portion was in sterling and other currencies that could be used for the rehabilitation and transportation of the refugees.[50]

Sweden's implementation of the other provisions of the July 1946 accord stretched out into the postwar years. The contribution of $36 million in liquidated German assets to the German economy was divided among the three occupying powers. The British share was turned over in April 1947, but agreements with the United States parceled out the American share, used for the purchase of Swedish products, from 1947 through 1951. The initial French shares were transferred by agreements in 1948, but a

[49] Memorandum from Rudlin to Hilldring, August 14, 1946, ibid., 800.515/8-1446.

[50] Seymour Rubin and Abba Schwartz, "Refugees and Reparations," in *Law and Contemporary Problems, War Claims,* School of Law, Duke University, vol. 16, Summer 1951, No. 3, p. 382. Airgram A-83 from Stockholm, January 23, 1948, reported that $6.5 million of the $12.5 million contributed by Sweden to the PCIRO had already been expended, that another $1.5 million in sterling would be transferred to the Jewish Agency for Palestine in the first four months of 1948, and the balance of $5 million would be transferred for the purchase of necessary supplies by the Joint Jewish Distribution Committee. Abba Schwartz, Reparations Director of the PCIRO, told the Legation that the current requirements of the PCIRO had "received the most courteous and sympathetic consideration by the officials of the Riksbank." (RG 84, Legation Stockholm, Confidential File, 1948, 020-863)

portion was withheld until December 1951 when the remainder was assigned to Bank deutscher Länder.[51]

As late as 1948 Sweden was still arguing that the Allies had no rights to German external assets in Sweden under ACC Law No. 5, prompting the U.S. Embassy to present a formal note to Sweden again explaining the legal basis for the Allies' claim.[52] The protracted negotiations concerning the distribution of the 75 million kroner ($18 million) in liquidated German assets earmarked under the accord for the IARA confounded the Allies. In August 1947 the Swedish Government rejected an IARA-proposed distribution of the $18 million among the various European nations seeking to recover from Nazi occupation. Sweden proposed an alternative plan that retained most of the $18 million for reparation to Norway, Denmark, and the Netherlands, nations which had already had received their full reparation shares from the IARA. Sweden would negotiate bilaterally with each recipient member nation rather than operate through the IARA.

In April 1948 U.S., British, and French representatives met in Paris at the Conference on Economic Security to discuss outstanding issues on the disposition of German external assets, and Sweden's delay in implementing the July 1946 accord was a prominent issue. At the meeting France referred to newspaper reports that indicated that the proceeds to Sweden from German assets had risen above the 100 million kroner level, raising the possibility of re-opening the Allied-Swedish negotiations in order to increase the allocation to the Allies of some of the excess beyond the 1946 estimates. U.S. representative Seymour Rubin was skeptical about the reports, doubted the possibility of obtaining any excesses from Sweden, and thought that the French representative was not enthusiastic about his own proposal.[53]

The tripartite conference led to no change in Allied policies toward Sweden regarding German external assets, and negotiations dragged on until December 1949 when a distribution among nine IARA nations was finally agreed upon. Even this agreement proved to be not fully acceptable to Sweden which, by September 1952, had distributed all but 7 million kroner ($1.4 million at 1952 exchange rates) destined for Belgium and Luxembourg (or the Belgian-Luxembourg Economic Union). Sweden insisted that the allocation to Belgium and Luxembourg be regarded as a repayable credit, a notion rejected by the would-be recipients. Ultimately, after further extended discussions with U.S.-British-French negotiators, the Swedish Government determined in

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[51] Some details of the disposition of the value of German liquidated assets for use in occupied Germany are presented in "Sweden and the Nazi Gold," pp. 4-5, prepared by the Swedish Commission on Jewish Assets in Sweden at the Time of the Second World War.

[52] Despatch 41 from Stockholm, including Note No. 28 to the Royal Ministry of Foreign Affairs, January 23, 1948, RG 59, Decimal Files 1945-49, 800.515/1-2348.

[53] Report by Seymour Rubin, Chairman of the U.S. Delegation to the Conference on Economic Security, Paris, April 26-May 7, 1948, *Foreign Relations*, 1948, vol. II, pp. 859-865.

December 1956 that the undistributed 7 million kroner from liquidated assets was being put at the disposal of the U.N. High Commissioner for Refugees.[54]

In 1953 the Swedish Government sought to obtain Allied agreement to a proposal to have West Germany repay Sweden for the 150 million kroner ($36 million) in external German assets applied under the July 1946 accord to forestall disease and unrest in Germany and to finance purchases essential for the economy. The $36 million would come out of the massive U.S. postwar economic assistance extended to Germany and which West Germany began to repay under a 1953 agreement. Sweden preferred that the $36 million revert to Sweden and that West Germany's repayment be applied to the compensation of former owners of German assets in Sweden. Such an arrangement would have allowed Swedish businessmen important financial exemptions in West Germany. The issue remained a matter of controversy between the Allies and the Swedish Government until it essentially expired in the wake of a West German-Swedish agreement settling questions relating to German assets in Sweden.[55]

I. Swedish Restitution of Looted Monetary Gold

The implementation of the monetary gold aspects of the July 1946 Allied-Swedish accord proved to be as difficult as that of the liquidated German assets. Sweden did not turn over the agreed monetary gold by the March 1948 deadline, with Swedish negotiators claiming that the gold had not yet been properly identified. On March 15 the U.S. Embassy rejected this assertion and requested that the transfer be made promptly, as agreed, to the Tripartite Gold Commission.[56] The Allies discussed these compliance problems at the Conference on Economic Security in Paris in April 1948, where the French representative asked if Sweden's failure to live up to the 1946 accord did not warrant renewed negotiations with Sweden, but the United States felt that Swedish obligations under the accord were perfectly clear, and the only question that Sweden could legitimately raise was the identification matter.[57]

On May 12, 1948, Sweden delivered a note to the U.S. Embassy in Stockholm claiming that further investigations were needed to determine if its gold holdings

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[54] Despatch 331 from U.S. Delegation to the IARA in Brussels, February 13, 1952, ibid., Decimal Files 1950-54, 262.0041/2-1352; despatch 262 from Stockholm, September 15, 1952, ibid., 262.0041/9-1552; telegram 432 from London, July 28, 1953, ibid., 262.0041/7-2853; *IARA Final Report.*

[55] Ibid., p. 33.

[56] Despatch 125, March 16, 1948, with attached Note No. 58, March 15, 1948, RG 59, Decimal Files 1945-49, 800.515/3-1648.

[57] Report by Rubin on the Conference of Economic Security, undated, *Foreign Relations*, 1948, vol. II, p. 863. The Swedish Independent Archives Inquiry report, "Sweden's Gold Transactions With Nazi Germany," Section 1,3,4,3, relates that in 1948 representatives of the French National Bank (France had compensated Belgium for its lost monetary gold) presented evidence to the Riksbank, including pages from the Prussian Mint Smelting Record for 1943, to substantiate the Belgian claim of the German conversion of the Belgian monetary gold and the transfer to the Riksbank of 7,311 kilograms of gold. Swedish negotiators reduced the total Belgian gold for which Sweden was responsible to 7,155 kilograms by subtracting 156 kilograms to the Credit Suisse Zurich in July 1943 and therefore not returnable inasmuch as the Allied-Swedish accord of July 1946 held Sweden responsible only for the gold in Sweden's possession in June 1945.

included looted gold as defined in the July 1946 accord.[58] The State Department discussed a response with the British and French Embassies in Washington, and in July the three Allies delivered separate but similar notes to Sweden. The Allies argued that all investigations had been completed by the Bank of France and the Riksbank soon after July 1946 and that no further investigation was needed.[59] Ultimately, Sweden transferred to the Tripartite Gold Commission account at the Federal Reserve Bank in New York in December 1949 the 7,155 kilograms of gold stipulated under the July 1946 accord. Making up the transfer were 401 gold bars shipped from Sweden to New York in October 1947 and 170 gold bars shipped to the Swedish account at the Federal Reserve in December 1947.[60]

Another difficult problem arose over the restitution of monetary gold looted by Germany from the Netherlands. This Dutch gold had not been discussed during the Allied-Swedish negotiations in Washington nor mentioned in the July 1946 Allied-Swedish accord. In May 1947, shortly before the expiration of the July 1, 1947, deadline for gold claims under the accord, the Allies began negotiations with Sweden for the restitution of 638 looted gold bars totaling 8,607 kilograms and worth about $9.7 million. (The Reichsbank had not considered it necessary to re-smelt much of the looted gold, most of which consisted of bullion that had come from outside the Netherlands. The Prussian Mint did re-smelt over 85 million gold coins. More than half of the gold acquired by Sweden from Germany in 1942 and 1943 consisted of coins.[61]) Sweden challenged a portion of these claims, arguing that some of the monetary gold had been acquired before the January 1943 London Declaration. The Allies claimed, however, that the July 1946 accord clearly stated that Sweden would restitute all looted gold. Swedish representatives held firmly to their contention that the accord did not apply to looted gold acquired prior to 1943.[62]

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[58] Despatch 221 from Stockholm, May 12, 1948, with two notes of May 4, 1948, attached, RG 59, Decimal Files 1945-49, 800.515/5-1248.

[59] Despatch 74 to Stockholm with attached draft note, July 13, 1948, ibid., 800.515/5-1248.

[60] Federal Reserve Bank of New York's official Account Activity Report for the Tripartite Gold Commission (Attachment C to the Report of the Federal Reserve Bank at the London Conference on Nazi Gold, December 1997).

[61] "Sweden and the Nazi Gold," report by the Swedish Commission on Jewish Assets in Sweden at the Time of the Second World War, presented to the London Conference on Nazi Gold in London, December 1997, pp. 8-9; and "Sweden's Gold Transactions With Nazi Germany," report by the Swedish Independent Archives Inquiry, December 1997, Section 1,3,4,4.

[62] Schwartz to Schmidt, May 8, 1947, RG 56, Acc. 70A-6232, Box 22 (this report mentions only 84 gold bars looted from the Netherlands and subsequently acquired by Sweden); Memo to the Files re Meeting at State Department Concerning Looted Dutch Gold Acquired by Sweden, June 23, 1947, ibid. (this memorandum establishes 638 gold bars as the official tally of looted gold in the two additional Allied claims against Sweden); "Draft of Sections of the History of Activities in Which the Treasury Department Participated...," January 29, 1952, by Robert J. Schwartz, ibid., Acc. 66A-816, Special Subject Files, Box 1.

According to "Sweden's Gold Transactions With Nazi Germany," Section 1, 3,4,4, and "Sweden and the Nazi Gold," pp. 9-10, the Riksbank acquired in 1942 and 1943 8,607 kilograms of looted Dutch gold of which 5,003 kilograms were coins. In the lengthy negotiations after the Swedish-Allied accord of July 1946, the Swedish negotiators took the position that 1,008 kilograms of gold acquired in November

In December 1947 the Netherlands furnished its final data on looted gold bars to the Swedish Riksbank. Sweden declared the evidence inconclusive. In November 1951 the State and Treasury Departments seemed ready to accept Sweden's argument but no action was taken. In fact, State did not even reply to a 1952 note from Sweden reiterating its claim that it was not accountable for any gold acquired prior to 1943. Swedish and U.S. representatives met to discuss the issue further, and their talks led to May 1954 discussions between Swedish and Dutch negotiators in Washington where the Dutch claim proved conclusive.[63] In April 1955 Sweden transferred to the Tripartite Gold Commission a further 479 bars of gold from its account at the Federal Reserve Bank in New York amounting to about 6,000 kilograms worth about $6.8 million.[64]

The Allied negotiators finally tried to bring the protracted negotiations over the Dutch looted gold to a conclusion by reducing the Allied claim by over a quarter if Sweden would come to a final agreement. For their part, the Swedish negotiators decided to conclude such an agreement rather than make use of the arbitration procedures provided for in the Allied-Swedish accord of July 1946. The compromise agreement, approved by the Swedish Parliament, provided for the transfer of 6 tons of gold to the Tripartite Gold Commission.[65]

J. U.S. Attitude Toward Sweden's Postwar Neutrality

The nearly ten years of Allied-Swedish exchanges and negotiations over the implementation of the July 1946 accord on restitution and reparation were conducted against a background of evolving U.S. leadership in the reconstruction of Europe and the onset of the Cold War. Sweden was resolute in maintaining a policy of neutrality during the Cold War. It did not receive U.S. economic or military assistance, it did not become the site of U.S. bases, and it was not included in regional military and political alliances aimed at warding off possible Communist aggression, above all NATO. Sweden's wartime neutrality echoed in those occasions when Swedish and U.S. leaders sought to define an understanding of Sweden's position in the postwar Cold War world. Swedish

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1942 had been sold to Swedish industry and should not be included in the Dutch claim, reducing the total of negotiable looted gold to 7,599 kilograms. According to "Sweden's Gold Transactions With Nazi Germany," Swedish negotiators argued both (a) that gold obtained from Germany before the January 1943 Allied Gold Declaration had been obtained in "good faith" and (b) that only gold acquired after January 1943 could be regarded as looted gold. According to the report, Sweden's negotiating position on the Dutch looted gold was commented upon by the Chairman of the Riksbank Board of Governors, Dag Hammarskjold: "It would seem to be impossible to claim 'acquisition in good faith' now if it had not been claimed before or at the latest by the Washington agreement. Every attempt to avoid payment according to the line stated will easily assume the character of casuistry."

[63] Memo to the files, October 12, 1951; Willis to Bonbright, November 15, 1951; Minutes of the Swedish-Allied Conference on Looted Gold, May 19, 1954, all in RG 56, Acc. 70A-6232, Box 22.

[64] Swedish Riksbank Press Release, December 20, 1996.

[65] "Sweden's Gold Transactions With Nazi Germany," Section 1,3,4,4. According to the Federal Reserve Bank of New York's official Account Activity Report for the Tripartite Gold Commission (Attachment C to the Report of the Federal Reserve Bank at the London Conference on Nazi Gold, December 1997), the Swedish Riksbank transferred 479 bars of gold, comprising 192,904 ounces, from its account at the Federal Reserve to the TGC account on April 29, 1955.

Foreign Minister Osten Unden called on Secretary of State George C. Marshall in Paris on October 14, 1948, during a meeting of the United Nations and sought to explain traditional Swedish neutrality. He made a particular point of describing Sweden's careful neutrality toward the Soviet invasion of Finland in 1940 and the possible postwar Soviet threat to Finland. Secretary Marshall took the opportunity to explain his own views on neutrality, reminding Unden what would have happened if the United States had remained neutral in two world wars. He summed up his view of why neutrality was impossible in the modern world:

> "After pointing out what the tragic results would have been in the world had the United States remained neutral, I explained what the world is now up against and what we are trying to do about it. I said that, unfortunately, we were confronted by a state which appeared to be utterly ruthless and devoid of all of the human decencies of modern civilization—a state which seized and used every expediency to serving its particular ends without regard to ethics. I said that if this ruthless force were not opposed, it seemed to us that we were confronted by the possibility of a gradual establishment over the world of police states, and that this was abhorrent to us. I said we were against such a development, whether it took the form of force such as the Norwegian experience with Germany, or the new form as exemplified recently in Czechoslovakia. I said that the United States was against the imposition on free peoples anywhere, against their will, of the police state."[66]

[66] Memorandum of conversation between Secretary of State Marshall and Foreign Minister Unden, October 14, 1948, RG 59, Conference Files, Lot 53 D 444.

Allied Relations and Negotiations With Turkey

A. Turkey's Neutrality in World War II[1]

At the start of World War II, Turkey was bound to Britain and France by the Tripartite Alliance of October 1939, but declared itself a non-belligerent on June 26, 1940, shortly after the French surrender to Germany.[2] Adolf Hitler established the terms of Germany's observance of Turkish neutrality in a letter to President Inonu in March 1941, at the time the Nazi forces invaded Yugoslavia and moved through Bulgaria to crush Greece. The inviolability of Turkey's frontier would be guaranteed and German troops would be allowed no closer than 20 miles from the Bulgarian-Turkish border. The German-Turkish Treaty of Friendship of June 18, 1941, confirmed these guarantees of the integrity of the Turkish borders and added the mutual undertaking to make no hostile action, directly or indirectly, against each other.[3]

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[1] In preparing this report, the terms "neutral" and "neutrality" have been used as convenient identifications of those few nations that were not actual belligerents in the War and the policies they followed with respect to the belligerents. The Note on Neutrality printed at the front of this report seeks to provide readers with a broader context of the use of the terms "neutral" and "non-belligerent."

Turkey's wartime diplomatic status in international law arose from its history and geography as well as its special strategic and economic positions. It is neither possible nor appropriate to use this Supplementary Report as the vehicle for a thorough analysis of the nature and evolution of "neutrality" in wartime Turkish foreign policy. It is clear from the published scholarship on Turkey's foreign policy and from official U.S. documentation that Turkey sought to ensure its territorial integrity and economic well-being. Terms such as "active neutrality" were for a time favored by some Turkish leaders as better describing Turkey's wartime efforts to achieve a balance between the two belligerent groups: maintaining both an alliance with Britain and friendship and mutual trade with Germany and her satellites. It is the intention of this chapter to describe how Allied leaders perceived Turkey's policy of neutrality and sought to bring about Turkish engagement in the War. The broader, objective understanding of Turkey's wartime policies and their interaction with those of Britain and the United States deserves and may be best achieved by international scholarly cooperation based on the opening of the full documentary record.

[2] According to J.R.M. Butler, *The History of the Second World War,* United Kingdom Military Series, *Grand Strategy,* vol. II, September 1939-June 1941 (London, 1958), p. 301, and Sir Llewellyn Woodward, *British Foreign Policy in the Second World War* (London, 1962), pp. 13-14, 127, and 129, Turkey invoked the clause of the October 1939 treaty under which Turkey was not required to take action that could involve it in war with Russia. Turkey also claimed that the treaty was no longer valid because France could not fulfill its obligations to the other members.

[3] The negotiation of the agreement is described in Franz von Papen, *Memoirs* (London, 1952), pp. 471-473. According to messages from the Japanese Ambassador in Ankara to the Japanese Foreign Ministry in Tokyo in early July 1942, intercepted and decrypted by U.S. authorities and available to U.S. leaders, German Ambassador to Turkey von Papen described Germany as avoiding any interference in Turkish affairs but rather patiently waiting for Turkey to decide when it would abandon its neutrality. Von Papen told the Japanese Ambassador, "So far I have taken a mild attitude and tried to use what I might call 'gentle persuasion' on them. Now, even though the situation is rapidly changing [after Axis military successes in Egypt against the Allies], I intend to continue acting the same way." The Japanese Ambassador speculated that behind von Papen's quiet analysis lay some assurance or pledge from Turkey to intervene on the side of Germany. (Telegrams Nos. 23, July 1, 1942 and 236, July 3, 1942, from Ankara to Tokyo, RG 457, Historic Cryptographic Collection, Pre-World War I through World War II, Box 314, Diplomatic Message Translations) A few months earlier, the Japanese Minister in Bulgaria was told by the

Britain and the United States accepted Turkey's neutrality early in the War in view of its military weakness, and they undertook to explore the possibility of rendering economic and military assistance to keep Turkey neutral until it could join the Allies. In light of traditional British interests in the eastern Mediterranean and, more specifically, the Anglo-Turkish Alliance of June 1939, Britain took the lead throughout World War II in relations with Turkey. U.S. military assistance to Turkey began in 1941 as part of the British effort to ensure that Turkey resisted Germany. On March 31, 1941, President Roosevelt implemented the Lend-Lease Act by declaring that the defense of Britain and Greece (then under attack by Italy and Germany) was in the national interest of the United States, beginning the allocation of Lend-Lease military assistance to those countries. In February 1941 U.S. Army Chief of Staff George C. Marshall had approved a list of surplus artillery that could be allocated to Britain. Because of President Roosevelt's desire that some aid be provided to Greece in the last moments of its unsuccessful resistance to Italo-German invasion, it was agreed to divide the initial assistance among Britain, Greece, and Turkey. Turkey's share would be administered by Britain, which wished to continue its influence in Turkey as well as the spirit of the Anglo-Turkish Alliance.[4]

British Prime Minister Churchill hoped in 1941 and 1942 to maintain Turkey as a friendly neutral prepared to defend itself against Germany, but he also wanted Turkey to enter the War as a prelude to Allied action in liberating Southeast Europe. Churchill sought to regulate military assistance to Turkey so that Turkey received, in the early stages of the War, only those supplies needed to defend itself and to maintain its favorable disposition toward the Allies. The British envisaged expanding the scope of aid to Turkey at some later stage of the War as an inducement to Turkish belligerency.[5]

The U.S. Joint Chiefs of Staff concluded in May 1942 that it was in the "military, political, and economic interest of the United Nations to maintain Turkish goodwill and confidence by granting reasonable requests for moderate amounts of material needed to support the Turkish domestic economy."[6] The U.S.-U.K. Combined Chiefs of Staff agreed in document C.C.S. 50/2 that "limited amounts of supplies should be allocated to [Turkey] as a means of influencing her to oppose Germany." In June 1942 the Allied Munitions Assignment Board determined that the Anglo-American Coordination Committee in Ankara would decide what aid Turkey received, but ad hoc decisions were made on whether the aid came directly from the United States or via Britain.[7]

Turkish Minister that "Turkey was determined to maintain her neutrality to the end." ("Magic" Diplomatic Summary, April 20, 1942, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 2)

[4] Robert W. Coakley and Richard M. Leighton, *United States Army in World War II: The War Department: Global Logistics and Strategy, 1940-1943* (Washington, D.C., 1958), p. 82.

[5] Coakley and Leighton, *Global Logistics and Strategy*, vol. I, pp. 519-520. Churchill's strategy toward Turkey was also spelled out in his message to Roosevelt, December 2, 1942, *Foreign Relations*, The Conferences at Washington, 1941-1942, and Casablanca, 1943, pp. 491-493.

[6] Joint Chiefs of Staff to Economic Defense Board, May 2, 1942, RG 169, Records of the Administrator, Geographic Files, 1942-44, Box 13.

[7] Coakley and Leighton, *Global Logistics and Strategy*, vol. I, p. 520.

B. High-Level Allied Discussion of Turkish Neutrality

After the tide of war turned in favor of the Allies, with major victories in North Africa and at Stalingrad, the issue of aiding Turkey and inducing it to enter the War became ever more important to the Allied leaders. At the Casablanca Conference in January 1943, President Roosevelt and Prime Minister Churchill and their political and military leaders considered the question of bringing Turkey into the War so that the country could be used as an Allied base to conduct military operations against the Axis in the Balkans and so that chromite could be denied to Germany. President Roosevelt took the position that the problem of bringing Turkey into the War on the Allied side should be accomplished by diplomacy, but he was concerned that the Allies not be put in the position of over-promising anything to Turkey. The Casablanca military conferees agreed that efforts should be made to induce Turkey to enlist on the side of the Allies and negotiations involving the provision of arms assistance to Turkey as a persuasion would be left to the British.[8]

Following up on the Casablanca Conference decision to bring Turkey into the War, Prime Minister Churchill and President Inonu and their advisers met at Adana, Turkey on January 30 and 31, 1943, to discuss possible Allied military assistance to Turkey in exchange for Turkey's joining the Allies or, at the least, providing Allied bases in Turkey. Turkish military leaders were not convinced that the danger of a German thrust that the Allies could not ward off was over. Turkey would require large quantities of military equipment before it could consider entering the War. Furthermore, the Turks were even more alarmed by the growing might of their traditional adversary, Russia. Turkish Prime Minister Saracoglu warned the British Ambassador that a Soviet victory would bring chaos to Europe, which would be confronted by Slavs and Communists. In succeeding months British military and diplomatic officials developed an ambitious list of equipment that the Turkish authorities wished to receive from Britain (apart from considerable economic assistance such as coal, locomotives, and rolling stock), including naval vessels, 2,300 tanks, 2,600 guns and howitzers, 1,200 aircraft, and 120,000 tons of aviation fuel. The British would also be expected to provide Turkey with 25 RAF squadrons, attendant anti-aircraft guns, and several anti-tank and armored divisions.[9]

Roosevelt and Churchill and their military advisers met again in Washington in June 1943 and confirmed the British role in framing and presenting all bids for military equipment to be delivered to Turkey. They also agreed to assign some priority to Turkey

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[8] *Foreign Relations*, The Conferences at Washington, 1941-1942, and Casablanca, 1943, pp. 541-542, 560, 643, 651, 659, 749-751, and 764-763. President Roosevelt's decision at Casablanca to allow Britain to "play the cards" in Turkey was consistent with American policy about Turkey even before Pearl Harbor. In October 1941 Secretary of State Hull assured British Ambassador Lord Halifax that the U.S. policy would be to take such steps as would give the British the maximum weight in Turkey. (Hull, *Memoirs*, vol. II, pp. 1365-1366)

[9] Michael Howard, *The History of the Second World War,* The United Kingdom Military Series, *Grand Strategy,* vol. IV, August 1942-September 1943 (London, 1972), pp. 376-389. The author cites the comment of one American official in Ankara that supplying the Turks with this assistance was like "feeding an eight course dinner to an eight-day-old baby."

and ensure that deliveries "be made with the least practicable delay."[10] American skepticism about Turkey's willingness to participate in the War began to grow, however, and in advance of the Roosevelt-Churchill meeting at Quebec in August 1943, the JCS took the view that:

> "Although well disposed toward Great Britain and the United States, Turkey is not apt to make an early departure from her position of neutrality. Her fear of Soviet domination of the Balkans, however, will probably lead her to active participation in the war, when it can be done at minimum cost, in order to obtain a voice in the peace settlement."[11]

The JCS concluded that the Allied policy of providing assistance "in the form of very sizable economic assistance [involving] a United Nations military commitment of considerable proportions" had not been fruitful, and therefore recommended that further aid to Turkey on the current scale was not warranted.[12] British Chief of Staff Lord Alanbrooke, who had visited Turkey, agreed with the American view, and felt that the Turks were not absorbing all the equipment already delivered and that further deliveries should be reduced to a "trickle" and to no more than Turkey could absorb. The Combined Chiefs of Staff, with the approval of President Roosevelt and Prime Minister Churchill, accordingly adopted a policy to cut back on assistance to Turkey:

> "In view of the apparent inability of Turkish forces to properly assimilate, maintain, and train with such equipment as has been provided to them, it is questionable as to whether the political benefits that would accrue from furnishing any further equipment would outweigh the advisability of retaining such equipment for other purposes."[13]

During the Quebec Conference, the British Chiefs of Staff, in considering Turkey's position in the War, concluded that all available forces be concentrated on Italy, leaving only small units for the Eastern Mediterranean and the Middle East "for improvised operations." The British Chiefs acknowledged that Turkey's entry into the War would impose added burdens on the German, but were concerned that the Turkish forces, in their current state, would be unable to take the offensive and might actually be endangered. It would be preferable for Turkey not to enter the War but to be pressed to

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[10] C.C.S. 242/6, May 25, 1943, *Foreign Relations*, The Conferences at Washington and Quebec, 1943, p. 371.

[11] Enclosure to C.C.S. 300/1, August 7, 1943, ibid., p. 463. U.S. leaders had access in the summer of 1943 to intercepted messages of the Japanese Ambassador in Ankara that commented on Turkey's reluctance to enter the War despite mounting Allied military successes. The Japanese Ambassador reported to his government that Turkey refused to provide bases to the Allies and was unhappy with the prospect of either the Allies or Germany demanding passage for their military units through Turkish territory. ("Magic" Diplomatic Summaries, July 27 and August 2, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 6)

[12] C.C.S. 303, August 9, 1943, *Foreign Relations*, The Conferences at Washington and Quebec, 1943, p. 480.

[13] C.C.S. 317, "Equipping Allies, Liberated Forces, and Friendly Neutrals," August 18, 1943, ibid., p. 1030.

make more economic and military concessions, including the completion of airfields and other facilities for the Allies.[14] By the end of the Quebec Conference, the Combined Chiefs of Staff recommended to the President and the Prime Minister that the time was not ripe for Turkey's entry into the War, but that Allied policy should be to provide Turkey with such equipment as could be spared and to seek Turkish agreement to exclude shipping of military value from the Black Sea and to halt the shipments of chrome to Germany.[15]

By October 1943 at the Tripartite Moscow Conference of Foreign Ministers, U.S. and British thinking and planning regarding Turkey's entry into the War was expanded to include the Soviet Union. At Moscow Soviet Foreign Minister Molotov proposed to Secretary of State Hull and British Foreign Secretary Eden that their three governments should bring united, strong pressure on Turkey to enter the War. Speaking on behalf of the President, Hull informed the conference that the United States did not consider it advisable at that time to induce Turkey to enter the War because the Allies were straining their resources preparing for landings in France and fighting in Italy. The United States was content to ask Turkey for the lease of air bases.[16] Eden also tended to discourage the Soviet proposal because the British were militarily weak in the eastern Mediterranean (an attempt to seize Rhodes from the Germans had just failed), and Istanbul was vulnerable to German attack. But, at Churchill's instructions, Eden left the door open to future action. Stalin explained his insistence on immediate Turkish entry into the War on the grounds that Turkey could currently draw off 10 German divisions and Germany could not

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[14] Howard, *Grand Strategy*, vol. IV, pp. 492-493. The declining danger of a German attack on Turkey and the possibility of Turkey's becoming a belligerent had already been assayed by Prime Minister Churchill in a February 1, 1943 "Morning Note," in which he wrote that he thought Turkey might be drawn into the War by being attacked "in the despairing convulsions" of declining but still powerful Nazi power. On the other hand, if Turkey entered the War in pursuit of its own interests, Churchill was concerned that "it would be wrong for Turkey to enter the war unless herself attacked if that only led her to a disaster." Ibid., p. 638.

[15] C.C.S. 319/5, "Report to the President and the Prime Minister," August 24, 1943, *Foreign Relations*, The Conferences at Washington and Quebec, 1943, p. 1131. Robin Denniston, *Churchill's Secret War: Diplomatic Decrypts, the Foreign Office and Turkey, 1942-1944* (New York, 1997), reviews and analyzes Prime Minister Churchill's use of decrypted enemy and Turkish diplomatic messages to guide his formulation of policy vis-à-vis Turkey. A few of those messages appear to be the same as those made available to President Roosevelt and included in National Security Agency files permanently retained at NARA, RG 457. Much of Denniston's review focuses on the failed British effort to seize the Dodecanese islands in the Eastern Mediterranean between September and November 1943 in the face of determined German efforts to control them, and the consequence of that military reverse on efforts to persuade Turkey to enter the War against Germany. Denniston (p. 113) concludes that Churchill, on the basis of his extensive reading of intercepted messages, was well aware of the absence of any German offensive threat in the area by late 1943 and that "the von Papen threat to Turkey—that the Germans would bomb Istanbul if they allowed the Allies to use air bases on Turkish soil—was no longer a realistic option for Germany, and it was most unlikely that Hitler would have sanctioned such a move anyhow." A main point of Denniston's analysis is that Allied experts knew from decrypted messages that German tenacity in the Dodecanese arose not from offensive capability or intention but from a desperate effort to ward off a phantom British invasion of the Balkans, the product of a very successful British deception effort.

[16] Hull, *Memoirs*, vol. II, pp. 1279-1280, 1301; *Foreign Relations*, 1943, vol. I, pp. 584-586, 634-635, and 659-662.

retaliate; by 1944, however, Turkish belligerency would be unnecessary and Allied arms support would have been wasted. Eden followed up the October 1943 Moscow Conference by visiting Ankara, where he emphasized the benefits that would derive from Turkey's entry into the War: Germany would have to reposition 10 divisions, Turkish chrome exports to Germany would be cut off, and Turkey would realize the moral advantage of hastening the defeat of Germany.[17]

Allied military leaders had concluded by the fall of 1943 that German forces were strictly on the defensive in the Balkans and foresaw no German offensive action in the area in 1944 against Turkey.[18] At their meeting at Tehran in November 1943, Roosevelt, Churchill, and Stalin again discussed Turkish entry into the War. Churchill took the lead in urging action: "To get the active, vigorous use of these [Turkish] forces, who otherwise would be mere lookers-on, might inflict grave injury upon the enemy." Roosevelt and his military advisers were reluctant to becoming entangled in the subsidiary issues of the Balkans. Stalin was still in favor of Turkey's belligerency: "We ought to take them by the scruff of the neck if necessary." But Stalin felt that "all neutrals regarded those who were waging war as fools to fight when they might be doing nothing." It was finally agreed at Tehran that President Roosevelt and Prime Minister Churchill should meet with Turkish President Inonu and seek to persuade Turkey to enter the War before the end of 1943.[19]

C. Allied Failure To Bring Turkey Into the War in 1944

In November 1943 Turkish military leaders, unhappy with the level of military assistance extended or promised to Turkey, had refused the Allies' requests to enter the War or even grant air bases to the Allies on the grounds that Germany and Bulgaria would likely retaliate by attacking Turkey's territory in Europe and its coastal cities.[20] When President Roosevelt and Prime Minister Churchill met with President Inonu at

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[17] Sir Llewellyn Woodward, *British Foreign Policy in the Second World War* (London, 1962), pp. 325-326, and Winston Churchill, *The Second World War*, vol. V, *Closing the Ring* (Boston, 1951), pp. 286-288, 334-335. The Allies must have been content with the secrecy that surrounded the discussion of Turkey at the Moscow Conference. A diplomatic intercept available to U.S. leaders summarized reports from the Greek Ambassador in Ankara whose information from the Turkish Foreign Ministry indicated that the Foreign Ministry was concerned over the possibility of concessions to the Soviet Union at Turkey's expense or, on the other hand, the possibility that Turkey was being "crowded still further from the political stage." ("Magic" Diplomatic Summary, November 8, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 8)

[18] C.C.S. 300/3, "Estimate of Enemy Situation, 1944—Europe (As of 1 November 1943)," November 18, 1943, *Foreign Relations*, Conferences at Cairo and Tehran, 1943, pp. 214-228. U.S. planners gave consideration to the possibility of a German attack only against Spain, and they concluded that was very unlikely.

[19] The complete record of the extensive discussions at Tehran among the Big Three and their military advisers is presented in *Foreign Relations*, The Conferences at Cairo and Tehran, 1943. The highlights of the British side of the conference are in Churchill, *Closing the Ring*, pp. 346, 352, 355, 357-358, 366-373.

[20] Telegram from Hull at Cairo to Roosevelt, November 22, 1943, *Foreign Relations*, The Conferences at Cairo and Tehran, 1943, pp. 374-376.

Cairo in December 1943 to ask that Turkey enter the War by mid-February 1944, Inonu and his advisers expressed a willingness in principle but asked for Allied air cover and substantial amounts of military assistance, signaling an end to the Turkish belief in a significant German military threat. Churchill's initial inclination was to warn Turkey that its refusal would mean "the virtual end of the alliance" and that "making impossible demands is only another way of saying no." The actual instructions sent to the British Ambassador in Ankara were to inform the Turkish Government that refusal or procrastination would lead to a cut-off of further aid, Turkish isolation for the rest of the War, and the possibility of no British support should the Soviet Union make postwar demands on altering the status of the Dardanelles.[21]

During January 1944 the Turkish Government continued to resist the proposal to enter the War, refused to receive a high-ranking British military delegation, and demanded to know the general Allied plans on attacking Germany elsewhere in 1944. The British authorities feared that Turkey had firmly adopted the view that on balance it had more to gain than to lose by remaining neutral. Britain therefore in February 1944 withdrew its military mission and, without any explanation, halted the further flow of military supplies.[22] At Secretary Hull's recommendation, President Roosevelt agreed to support the British policy, and U.S. (and of course British) arms shipments to Turkey ceased in February 1944.[23] By that time the United States had provided Turkey military equipment and goods worth approximately $43 million.[24]

Turkey made no effort, privately or in public, to decry the end of Lend-Lease military assistance in early 1944. It broke off commercial and diplomatic relations with Germany in August 1944 and eventually declared war on Germany on February 23, 1945. Turkey, which had resisted signing a formal Lend-Lease agreement with the United States since a proposed text was first presented by the U.S. Ambassador in January 1943, only consented to such an agreement on the day it finally joined the War on the Allied side. As in the case of other nations that received U.S. aid during the War, Turkey was asked to conclude a postwar agreement to settle on the value of the remaining Lend-Lease materials that had not been lost, consumed, or destroyed. U.S. officials working on a proposed settlement with Turkey in early 1946 learned from the Treasury Department

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[21] Woodward, *British Foreign Policy in the Second World War*, pp. 327-328. Woodward adds that the Foreign Office learned that a German spy (Cicero) had succeeded in gaining copies of the documents on the Tehran and Cairo Conferences regarding Turkish entry into the War. The complete U.S. records of the Cairo Conference are in *Foreign Relations*, The Conferences at Cairo and Tehran, 1943. U.S. leaders had access to the intercepted telegraphic reports of Turkish Foreign Minister Menemencioglu to his Ambassadors in London, Washington, and Moscow on the Eden visit to Ankara in November after the Moscow Foreign Ministers Conference and to his report to his Ambassador in Berlin after the Roosevelt-Churchill-Inonu meeting at Cairo in December. ("Magic" Diplomatic Summaries, November 19 and December 15, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Box 8)

[22] Woodward, *British Foreign Policy in the Second World War*, p. 328-329. Woodward notes that Churchill summed up this policy as "just silence and fade away."

[23] Hull, *Memoirs*, vol. II, p. 1371.

[24] Department of State, *Twenty-Third Report to Congress on Lend-Lease Operations*, Publication No. 2707 (Washington, D.C., 1945), pp. 15-16.

that Turkey's very favorable financial position made it quite feasible to make a cash payment for left-over Lend-Lease: Turkey's foreign exchange holdings had risen during the War from $37 million to $292 million, Turkey's industrial employment had risen over 40 percent, and the Turkish Central Bank had 77,664 kilograms of gold in Turkey and 136,277 kilograms of gold in the United States and Canada. A U.S.-Turkish agreement on Lend-Lease claims, under which Turkey transferred $4.5 million for remaining Lend-Lease materials, was signed on May 8, 1946.[25]

D. The Economic Side of Turkish Neutrality

Hitler planned to invade Turkey after a German defeat of the Soviet Union,[26] but in the meantime he sought a Turkish neutrality that ensured a peaceful eastern Mediterranean region and such trade, particularly in chromite ore, that would aid the German war economy. Without abandoning its existing ties with Britain (and the important new connections with the United States from 1941), neutral Turkey accommodated Germany from 1941 through much of 1944 in the economic field as much as seemed necessary and expedient. In October 1941 Germany and Turkey concluded an important trade agreement that, combined with several supplementary agreements, defined Turkish economic relations with Germany during 1942-1944. The so-called Clodius agreement (German trade expert Dr. Karl Clodius was the German negotiator) provided for an exchange of Turkish raw materials for German war matériel, together with iron and steel products and other manufactured goods. In supplementary agreements, Turkey agreed to allow exports to Germany of 45,000 tons of chromite ore in 1941-1942, and 90,000 tons of chromite in both 1943 and 1944. Actual export of the Turkish materials depended on Germany's ability to deliver the promised military equipment.[27]

Turkish officials sought to minimize to British and U.S. representatives the effects of trade with the Axis by stressing the likelihood that Germany and its satellites would not be able to fulfill their commitments and no Turkish deliveries would be necessary. They also claimed that Turkey was artificially delaying its deliveries to Germany by

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[25] "Lend Lease to Turkey," July 19, 1946, pp. 12-23, RG 169, Records of the Administrator, Records Analysis Division, Research Reports and Studies. According to the "Gold Report" and attached documents presented to Under Secretary of State Eizenstat under cover of a January 13, 1998, letter from Turkish Ambassador Nuzhet Kandemir, the gold assets of the Central Bank of Turkey increased from 27.4 tons (about $30.8 million) in 1939 to 216.2 metric tons (about $243.2 million) by the end of 1945. The main reasons for this increase in gold assets were to meet demands for foreign currency and to protect Turkey's foreign holdings against wartime depreciation.

[26] Weinberg, *A World At Arms: A Global History of World War II*, p. 219.

[27] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 206-208, RG 169, Records of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5. Turkey also concluded trade agreements with German satellite states: Romania in 1941, Hungary in 1941-1943, and Finland in 1943. Apart from what U.S. representatives in Turkey learned about the German-Turkish commercial agreements, U.S. leaders had access to rather detailed information derived from intercepted diplomatic messages from the Japanese Ambassador in Ankara to his government; see, for example, "Magic" Diplomatic Summaries, June 29, 1942, and May 23, 1943, RG 457, "Magic" Diplomatic Summaries, 1942-1945, Boxes 4 and 5, respectively.

prolonged negotiations and the plea of a shortage of transportation facilities.[28] Nonetheless, the Germans made every effort to hasten the delivery of the urgently needed chromite by making available as many as 117 locomotives and 1,250 freight cars.[29] German merchant ships gained access to the Black Sea as a result of Turkey's liberal interpretation of its responsibilities to monitor the straits under the terms of the 1936 Montreux Convention.[30]

E. Allied Economic Policies Toward Neutral Turkey; Preclusive Trade and Military Assistance

The basic objectives of joint U.S.-British wartime economic operations and policies toward neutral Turkey were to minimize Turkey's contribution to the German war economy and to supply civilian and military equipment in order to enable Turkey to become an active participant with the Allies in the War. In order to prevent Germany from acquiring strategic raw materials from Turkey, Britain and the United States adopted a program of preclusive purchases of Turkish chromite and other minerals and withholding certain supplies from Turkey in return for Turkey's ban on exports of similar items to Germany.[31] Britain, which had a continuing stake in the Turkish economy, began in 1940 its program of preclusive buying of Turkish strategic materials. Chromite ore was the most significant commodity in the program (copper and some other minerals were also acquired), but foodstuffs were purchased to supply the British population, and the British were obliged to purchase other goods, such as dried fruits and tobacco, as a condition of obtaining access to Turkish chromite. Preclusive buying from Turkey became far more important after Germany concluded the "Clodius agreement" with Turkey in October 1941, under which Turkey would provide Germany with a variety of raw materials, most importantly chromite, in exchange for German military equipment.

Chromite ore (from which is derived chromium, an element essential for the manufacture of stainless steel and refractory brick) was evaluated by American experts as one of the few raw materials that were essential for the German war industry and for which there were no fully adequate sources within German territory.[32] At the beginning

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[28] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, p. 59, RG 169, Records of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5. The report concludes: "The cold truth is that Turkey, like Spain and Portugal, was primarily interested in the preservation of neutrality and in imports to supplement its depleted economy."

[29] Telegram 1716 from Ankara, October 18, 1943, and telegram 1216 from Ankara, November 22, 1943, *Foreign Relations*, 1943, vol. IV, pp. 1164 and 1167.

[30] U.S. and British diplomatic representations to Turkey regarding the transit of the Dardanelles by German vessels are documented ibid., 1942, vol. IV, pp. 805-811 and ibid., 1943, vol. IV, pp. 806-807.

[31] "Support Purchase Program in Turkey," May 28, 1945, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

[32] The U.S. Army and Navy Munitions Board listed chromium as one of seven strategic metals needed for the war effort. The others were antimony, manganese, mercury, nickel, tin, and tungsten. (Arthur Kemp, "Chromium: A Strategic Metal," *Harvard Business Review* (Winter 1942), pp. 199-212) At the outbreak of the war, Turkey mined approximately 190,000 tons of chromite, or about a fifth of the world's total output, cited in Edward Weisband, *Turkish Foreign Policy 1943-1945: Small State Diplomacy and Great Power Politics* (Princeton, N.J., 1973), p. 110)

of the war Germany had an estimated stockpile of about 250,000 tons of chromite, which had been accumulated by heavy purchases in Africa, Turkey, and the Balkans in the late 1930s. By 1941 the only European source within the German orbit available for new deliveries of ore was the Balkans, and the only accessible source outside occupied Europe was Turkey. In mid-1944 the United States judged that Germany's loss of its remaining chromite supplies would be disastrous: total German steel production would decline from the estimated 35 million tons in 1943 to 2 millions tons per quarter by the end of 1944, and Germany would have to abandon the production of high alloy steels; the output of engineering steels would decline by two-thirds, and the special steel available for military ordnance would decline from nearly 2.5 million tons to less than 900,000 tons.[33]

As the War proceeded and the German chromite stockpile dwindled, competition for Turkey's production became a major economic warfare front for the Allies and Germany from Turkey. The preclusive purchase program of chromite was deemed by Allied experts as the most vital part of Anglo-American economic policy toward Turkey.[34] Turkey ranked fourth among producers of chromite, after Africa, the Philippines, and Cuba. Until January 1943 no chromite reached Germany. Britain and France had concluded an agreement with Turkey in January 1940 that guaranteed their sole purchase of all Turkish chromite for 1940 and 1941. Britain, joined by the United States, extended this arrangement with Turkey through 1942. In October 1941, however, the Clodius agreement between Turkey and Germany was concluded, providing for chromite sales to Germany of up to 45,000 tons by March 1943 and an additional 90,000 tons in 1943 and 1944. Turkish chromite shipments to Germany began in January 1943. In that year, Turkey exported more than 45,700 tons of chromite ore to Germany. Since the Allies estimated the German annual requirement for chromite ore to be between 40,000 and 45,000 tons, Turkey was supplying most of and possibly more than what Germany required.[35]

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[33] "Ferro-Alloys and Their Effect on Steel in the German War Industry, 1943 and 1944," June 1944, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13. A report entitled "Raw Materials Position of Enemy Europe," February 14, 1944, estimated German chromite supplies in 1943 at 232,000 tons, of which 166,000 tons were produced in occupied Balkans and 46,000 tons were imported from Turkey. The report concluded that the loss of the Balkans and stoppage of chromite supplies from Turkey would result in the complete collapse of the German steel alloy economy within 6 to 9 months. The report is ibid.

[34] "Production and Preemption of Chrome in Turkey," September 16, 1943, p. 13, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies.

[35] Report prepared by the U.S. Embassy in Ankara, "Summary of Goods Exported From Turkey to Europe in 1943," March 6, 1944, RG 59, Lot 55 D 643, Office of Near Eastern Affairs, Subject Files Relating to Economic Affairs, 1947-51, Box 4; "Ferro-Alloys and Their Effect on Steel in the German War Industry, 1943 and 1944," June 1944, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies, Box 13. Intercepted messages from the Portuguese Ambassador in Turkey to his Foreign Ministry in May 1943, copies of which were available to U.S. leaders, reported that the German-Turkish commercial agreement of 1941 provided for the delivery of 180,000 tons of chromite ore to Germany in 1943, but that only 20,000 tons had thus far been delivered because Britain had gained "some additional advantage" and not because Turkish production had declined, as the Turkish authorities claimed to Germany. (Telegrams 62 and 66, May 24 and May 27, 1943, from Ankara to Lisbon, RG 457,

During 1943 and 1944 British and U.S. representatives in Turkey sought to thwart the increasing commerce between Germany and Turkey by urging Turkey not to negotiate agreements for additional deliveries of chromite, to delay exports of chromite until Germany fully met its obligations to deliver military equipment and other items under the Clodius agreement, to throw every possible obstacle in the way of transporting ore from the mines, and to encourage reductions in mining operations. The Allies even considered finding a way to dump the ore into the sea to prevent its delivery to Germany, and U.S. Ambassador Laurence Steinhardt and the British Ambassador noted that 85 percent of the chromite ore deliveries to Germany could be halted if the railroad bridges over the Martiza River dividing Turkey and Bulgaria were destroyed by bombing or sabotage. The Soviet Union joined the British and U.S. Governments in January 1943 in urging Turkey to halt its chromite exports to Germany.[36]

F. U.S. Participation in the Preclusive Purchasing Program of Turkish Chromite and Other Commodities

To supplement the Allied efforts to persuade Turkey to curtail or halt its trade with Germany, Britain and the United States undertook a preclusive buying program. The chromite preclusive purchasing program for Turkey was a British undertaking begun in 1940. The United States entered it in April 1941 when the U.S. Treasury Department's Procurement Division agreed to purchase 100,000 tons of chromite from the U.K. Commercial Corporation, the British preclusive purchasing authority. In March 1942 the United States agreed to purchase another 292,000 tons. Of the projected 803,000 tons of chromite to be imported by the United States (the United States was expected to consume 996,000 tons of chromite in 1943), 109,000 tons was to come from Turkey.[37]

The United States joined Britain in the wider preclusive buying program in Turkey early in 1942. The two Allies began purchasing the strategic commodities that Turkey had promised Germany in the trade agreements with Germany and its satellites. These included, at various times, mohair, antimony, copper, flax, hemp, textile fibers, and molybdenum. Total U.S. preclusive purchases in Turkey from 1942 through 1944, including chromite, totaled $125 million. A staff of 100 at the U.K. Commercial Corporation managed the British side of buying operations, while the U.S. Embassy dealt with the American side of the program. Differences in approach sometimes caused problems between the two Allies, especially insofar as the U.S. agents tended to undertake unofficial purchases (done without prior consultation with either the Turkish or

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Historic Cryptographic Collection, Pre-World War I Through World War II, Diplomatic Message Translations, Box 369)

[36] "Production and Preemption of Chrome in Turkey," pp. 13-17, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies; "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, ibid., Historical Monographs Prepared Outside the Division, Box 5; Hull, *Memoirs*, vol. II, pp. 1371-1372.

[37] "Production and Preemption of Chrome in Turkey," September 16, 1943, pp. 11-12, RG 169, Office of the Administrator, Records Analysis Division, Research Reports and Studies.

the British Government) in order to prevent export of commodities in desperately short supply in Germany.[38]

G. Turkish Cessation of Trade With Germany, April 1944

In October 1943 the Turkish Government concluded another agreement with Germany under which Turkey would provide up to 135,000 tons of chromite in 1944. Allied observers estimated deliveries to Germany of Turkish chromite amounted to nearly 44,000 tons in 1943 and more than 8,000 tons in January 1944 alone, despite the Allied preclusive buying program. Allied diplomatic representatives protested to the Turkish Government.[39] After Acting Secretary of State Edward Stettinius reported to President Roosevelt the difficulties encountered in denying Turkish chromite to Germany, the President on March 10, 1944, authorized the transmission of a severe letter to the Turkish President:

> "As you know, the Russians by the capture of Nikopol have succeeded in denying an important source of manganese to the Germans. This, therefore, multiplies the importance to the German war machine of Turkish chrome ore, which for many purposes can be substituted for manganese.
>
> "You will readily see that the continuation of large supplies of chrome ore from Turkey to Germany has now become a matter of grave concern to the United Nations.
>
> "You will know best how the Germans can be denied further access to Turkish chrome ore. You have inventive genius and I hope you will find some method!
>
> "I am confident that you will recognize this opportunity for Turkey to make a unique contribution to what really is the welfare of the world."[40]

Although the Allies were unaware of it, President Roosevelt's analysis of the importance of chrome to the German war effort was not nearly as devastating as that of German Minister for Armaments and Munitions Albert Speer, who reported on the current German inventory of alloy metals in a memorandum to Hitler on November 10, 1943, and concluded:

> "Hence the element in shortest supply is chromium. This is especially grave since chromium is indispensable to a highly developed armaments industry.

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[38] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 208-221, ibid., Historical Monographs Prepared Outside the Division, Box 5; Stettinius to Franklin Roosevelt, February 19, 1944, and Stone to Cox, February 24, 1944, both ibid., Records of the Administrator, Geographic Files, 1942-44, Box 13.

[39] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 241-244, ibid., Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5.

[40] A copy of the letter, March 10, is ibid., Office of the Administrator, Geographic File 1942-44, Box 13. The letter, which was also sent to Churchill and Stalin, is also described in Secretary Hull's message 280 to Ankara, March 20, 1944, *Foreign Relations,* 1944, vol. V, pp. 820-821.

Should supplies from Turkey be cut off, the stockpile of chromium is sufficient only for 5.6 months. The manufacture of planes, tanks, motor vehicles, tank shells, U-boats, and almost the entire gamut of artillery would have to cease from one to three months after this deadline, since by then the reserves in the distributions channels would be used up."

In his memoirs, Speer explained further that the conclusion in his memorandum "meant no more or less than that the war would be over approximately ten months after the loss of the Balkans."[41]

President Roosevelt's message was never in fact delivered to President Inonu. Roosevelt asked Secretary Hull not to deliver the letter, which Churchill and Eden regarded as too friendly a message and which might be misconstrued by the Turks as a weakening of the Allied position.[42] Instead Allied economic policy toward Turkey grew more severe, especially after German negotiators arrived in Ankara in early April 1944 intending to renew the German-Turkish trade agreement, which was to expire at the end of the month. U.S. Ambassador Steinhardt and his British colleague sent a stern note to the Turkish Foreign Minister on April 14:

> "The Government of the United States and the Government of Great Britain have been seriously perturbed by the economic assistance which Turkish trade relations with Europe have given to the enemy. Hitherto however they have acquiesced in this situation on the informal understanding that Turkish exports were limited to what was required to purchase essential Turkish requirements which could not be obtained from the United Nations. The rapidly approaching crisis in the war situation, when it is essential that the enemy should be deprived of all means of resistance, compels the two Governments to revise their attitude even though they realize that this may cause some temporary inconvenience to Turkish economy. Accordingly they feel bound to warn the Turkish Government that the Government of the United States and the Government of Britain view with serious disfavor as prejudicial to their vital interests the Turkish agreements with Germany and her satellites whereby Turkey undertakes to supply commodities to those countries which are essential to the conduct of the war. Any renewal of agreements or the conclusion of fresh agreements on the same lines will entail the application to Turkey of blockade measures such as the two Governments have throughout the war applied to neutral countries."[43]

Within six days of the joint U.S.-British note, the Turkish Government announced the cessation of chromite trade to Germany, and by mid-June Turkey agreed to reduce by 50 percent the export to Germany of other commodities.[44] Germany did not react angrily

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[41] Albert Speer, *Inside the Third Reich: Memoirs*, translated by Richard and Clara Winston (New York and Toronto, 1970), pp. 316-317.

[42] Hull, *Memoirs,* vol. II, p. 1371.

[43] Telegram 689 from Ankara, April 15, 1944, *Foreign Relations*, 1944, vol. V, pp. 827-828.

[44] Hull, *Memoirs,* vol. II, p. 1372. An intercepted message of April 22, 1944, from the Chinese Legation in Ankara to the Chinese Embassy in Moscow, a copy of which was available to U.S. leaders,

to the Turkish action.[45] Wartime German Armaments Minister Speer commented in his memoirs upon the conflict in the late summer of 1944 between Hitler and his military advisers over planned German withdrawals from Finland, northern Norway, upper Italy, and the Balkans and whether such withdrawals would deprive Germany of such important raw materials that the conduct of the War would be fundamentally undermined. In a memorandum of September 2, 1944, Speer informed Hitler and his military advisers that the ending of chromite shipments from Turkey would be the decisive step in the "war of materials." Speer predicted that without additional Turkish chromite, the last distribution of chromium to the German war industry would be on June 1, 1945. "Considering the time needed by the processing industries, the production dependent on chromium, which means the entire production of armaments, will cease on January 1, 1946."[46]

H. Turkish Severance of Relations With Germany and Declaration of War, 1944-1945

Following the opening of the Second Front in Western Europe in June 1944, U.S. and British diplomatic efforts, abetted by the Soviet Union, to end Turkish trade and diplomatic relations with Germany soon resulted in the decision of the Turkish Government on July 25, 1944, to ask the Turkish Grand National Assembly to sever all economic and diplomatic relations with Germany on August 2, 1944, a request which the Assembly approved. The British and U.S. Governments acknowledged the action of the Grand National Assembly to sever Turkey's relations with Germany as but the first step in the move by Turkey toward full belligerency on the side of the Allies. In fact, the U.S. Joint Chiefs of Staff made clear at the time, and Turkey was informed, that its severance of relations by no means implied a promise of military assistance or support to operations in the Balkans. The Soviet Government, which found the Turkish action against Germany too late and unsatisfactory, made clear its disappointment that Britain and the

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quoted from Foreign Minister Saracoglu's statement to the Turkish National Assembly the previous day that, "Turkey is an ally of Britain: she is not a neutral; she is accordingly duty bound to give her ally as much assistance as lies in her power. The export of chrome to Germany has been stopped." The telegram concluded that Turkey had yielded because of the far-reaching victories of the Red Army, the imminent Second Front in Europe, and the months-long economic pressure of Britain and the United States. (RG 457, Historic Cryptographic Collection, Pre World War I Through World War II, Diplomatic Message Translations, Box 413) The "Magic" diplomatic summary available to U.S. leaders on April 29, 1944, included an account of several German messages to the German Legation in Sofia on April 21, the last day on which chromite ore could be exported from Turkey, asking for assistance in arranging for 200 railway freight cars loaded with more than 3,400 tons of chromite ore, and stuck at the Bulgarian frontier, to be gotten across the frontier. (Ibid., "Magic" Diplomatic Summaries, 1942-1945, Box 1)

[45] Intercepted Japanese, Iranian, and Portuguese diplomatic messages from Ankara in early May 1944, available to U.S. leaders, reported that Germany had accepted the embargo of chromite ore exports without a protest or angry action against Turkey, but that Turkey found the action insufficient to improve relations with Britain and the United States "who demand still further economic and other concessions." Message from the Iranian Embassy in Ankara to Tehran, May 2, 1944, message from the Japanese Ambassador in Ankara to Tokyo, May 4, 1944, and message from the Portuguese Ambassador in Ankara to Lisbon, May 9, 1944, all in RG 457, Historic Cryptographic Collection, Pre-World War I Through World War II, Diplomatic Message Translations, Box 412.

[46] Speer, *Inside the Third Reich: Memoirs*, pp. 405-406.

United States had acquiesced to a multi-step process for Turkey's shift from neutrality to belligerency.[47] The next Soviet démarche regarding Turkey was to come in 1945 in the form of a demand at Potsdam for a revision of the Dardanelles regime.

By the summer of 1944 Allied military successes made the preclusive purchasing program in Turkey increasingly unnecessary. Some purchases continued into late 1944 in order to avoid any economic disruption from the withdrawal of large Allied purchases of Turkish goods. The United States and Britain also felt bound to seek to make up for any serious impact on the Turkish economy resulting from the loss of trade with Germany and her satellites. On July 21, 1944, Secretary of State Stettinius proposed that the Foreign Economic Administration make available a fund of $25 million to buy Turkish products, provided the British did as well. In fact, the end of the preclusive purchasing program in Turkey had no ill effect as Turkey found new European customers, and the Allied fund was never used.[48]

Turkey was among a number of nations that had broken relations with Germany but not declared war to be invited, at the agreement of the United States, Britain, and the Soviet Union, to join the founding conference of the United Nations at San Francisco in March 1945 if they declared war on Germany by March 1.[49] Turkey declared war on the Axis on February 23, 1945.

I. Turkey's Wartime Trade in German Looted Gold

Near the close of the War, U.S. officials paid increasing attention to German gold in Turkey. Although the Allies explored the possibility, Allied intelligence never found that Turkey received gold from Germany in exchange for chromite.[50] The gold Turkey received from Germany fell into two categories: gold that the government purchased and stored in its financial institutions and gold that was exchanged through private transactions on Turkey's thriving gold market. State Department expert Otto Fletcher estimated that Germany had sold up to $10 million in gold in the Balkans, mostly to Turkey, during the War.[51] The only "official" looted gold transaction ever traced to the

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[47] The negotiations among the United States, Britain, and the Soviet Union to end Turkish commercial and diplomatic relations with Germany are reported in detail in *Foreign Relations*, 1944, vol. V, pp. 860-890.

[48] "Preclusive Operations in the Neutral Countries in World War II," March 20, 1947, pp. 226-227, RG 169, Office of the Administrator, Records Analysis Division, Historical Monographs Prepared Outside the Division, Box 5; *Foreign Relations*, 1944, vol. V, pp. 1146 ff.

[49] Woodward, *British Foreign Policy in the Second World War*, p. 492, footnote 2.

[50] Steinhardt to the Secretary of State, August 2, 1943, NARA, RG 319, Records of the Army Staff, ACS G-2, Incoming and Outgoing Messages, 1942-45, Box 641.

[51] "German Gold Movements (Estimate)," by Otto Fletcher, February 5, 1946, RG 59, Decimal Files 1945-49, 800.515/5-646. According to SICE, "Gold Transactions," pp. 14, 16, and 17, the Swiss National Bank sold Turkey $3.4 million in gold, and the Reichsbank sold to the Turkish Central Bank through the SNB $3.5 million in gold and the Reichsbank transferred directly to the Turkish Central Bank $5.7 million in gold. According to a paper submitted to State Department Historian William Slany by the Swiss National Bank on January 5, 1998, "Some Detailed Facts Relating to the Swiss National Bank's (SNB) Gold Operations During the Second World War," Turkey purchased 3 tons of gold ($3.4 million) from the Swiss National Bank.

Turkish Government was the purchase of $3.4 million of Belgian monetary gold in March 1943.[52] Although rumors circulated about looted gold in Turkey around the time of the purchase, they were not confirmed until May 1947 when captured records from the Reichsbank and the Prussian Mint demonstrated that 249 bars of Belgian monetary gold seized by Germany were re-smelted and sent to the Turkish Central Bank in March 1943.[53]

Turkey is also believed to have received German looted gold immediately following the War. In September 1945 the Swiss Legation in Ankara assumed responsibility for German interests in Turkey and delivered to Turkish authorities 12,800 assorted gold coins, 140 kilograms of gold ingots, and 250,000 Turkish pounds. The Swiss also turned over 20,000 assorted gold coins and 100 kilograms of gold ingots that belonged to the Dresdner Bank, making the total delivery worth over $400,000.[54] U.S. officials later established that the source of the gold was the separate account of German

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[52] Schwartz to Bitterman, January 29, 1952, RG 56, Office of International Finance.

[53] OMGUS to AGWAR, May 26, 1947, NARA, RG 260, Records of U.S. Occupation Headquarters, WWII, OMGUS, Property Division, Box 654. An undated "Gold Report" provided to Under Secretary of State Eizenstat on December 1, 1997, by Turkish Minister of State Sukru S. Gurel, provides a summary account of official gold transfers during and after World War II. According to this "Gold Report," in May 1943 the Swiss National Bank (SNB), acting in response to a decision of the Central Bank of the Republic of Turkey (CBRT), purchased on behalf of the CBRT 3,048 kilograms of gold for 15 million Swiss francs ($3.4 million). Because of the wartime difficulties in transporting gold, the CBRT accepted the offer of the Reichsbank to supply Turkey with 249 gold bars weighing 3,047 kilograms in exchange for which the SNB transferred 3,048 kilograms of its gold to the Reichsbank. The 249 Reichsbank bars were received by Turkey on June 3, 1943. The "Gold Report" reports two other instances of Turkish purchases of German gold. On July 6, 1942, the CBRT bought 2,017 kilograms of gold (about $2.3 million) from the Reichsbank and ordered the Sveriges Riksbank and the SNB to credit their Reichsbank accounts with 4.5 million kroner and 5.18 million Swiss francs, respectively. The Report also describes how 223 kilograms of gold bars and 32,799 gold coins handed over by the German Embassy in Ankara to the CBRT via the Swiss Embassy at the end of the War were eventually all returned to the Deutsche Bank and the Dresdner Bank (100 kilograms of gold bars and 20,000 gold coins) and the Federal German Government (123 kilograms of gold bars and 12,799 gold coins) pursuant to a German-Turkish protocol signed in Bonn on November 3, 1960. In a report of March 5, 1998, Dr. D. Bourgeois of the Swiss Federal Archives transmitted a copy of the 9-page July 1, 1946, accounting of the gold, coins, and other valuables received from the German Embassy on April 16, 1945, and subsequently handed over to the Turkish authorities on February 28, 1946. A copy of this report was shared with William Slany by the Swiss Embassy in Washington.

According to the Turkish "Gold Report," gold assets at the CBRT rose from 27.4 metric tons in 1939 to more than 216 tons at the end of 1945. The Report points out that Turkey's foreign trade surplus for 1939-1946 totaled $341.5 million, equivalent to 303.6 metric tons of gold, and explains the increase in Turkey's gold reserve.

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[54] Embassy, Ankara to the Secretary of State, September 7, 1945, RG 84, Embassy Ankara, Safehaven Files, 1945-48, Box 4.

Foreign Minister Joachim Ribbentrop at the Reichsbank, which had been stocked with gold looted from the occupied countries during the War.[55]

Although there were few documented cases of the Turkish Government or Central Bank acquiring looted gold from Germany, Allied diplomatic and intelligence reports described a lively traffic in such gold on Turkey's free gold market in 1943 and 1944. According to these reports, the two principal German banks in Turkey, the Deutsche Bank and the Dresdner Bank, were acquiring looted gold from the Reichsbank in exchange for Swiss francs and other valuable foreign currency provided by German and Axis diplomats. In return for their foreign currency, these diplomats received Turkish currency at far better than the official rate (in July 1943, for example, the two German banks were paying 50 Turkish lira for 100 Swiss francs, as opposed to the official exchange rate of 30 lira for 100 francs). After bringing the gold to Turkey by diplomatic pouch and other means, the two banks could sell it on the free market at prices greatly exceeding what the banks had paid for it.[56]

According to a detailed 1943 British study of German gold imports into Turkey, the two German banks had originally entered the gold trade on their own in late 1941 after seeing an opportunity to profit from the difference in official gold rates and the price of gold on the free market. At first, the banks acquired gold in Switzerland to sell in Turkey. After Switzerland cracked down on gold exports in October 1942, the banks acquired gold from Berlin in such quantities that they came to dominate the Turkish free market. Between January and mid-May 1943, the two banks sold approximately $5 million worth of gold to dealers in Turkey.[57]

The British report on the German gold trade in Turkey stated that the gold being sold by the Deutsche Bank and the Dresdner Bank was "highly suspect as loot."[58] Both British and U.S. reports identified the gold as being in the form of gold coins, primarily Dutch gulden and French Napoleons, and newly smelted ingots weighing one-half and one kilogram. The 1943 British study further reported that some of the ingots had been smelted in Germany from "Fertigwaren" (finished goods) made of gold, and it noted that records of the Istanbul branch of the Deutsche Bank listed among its gold holdings as of

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[55] Acheson to the Embassy, Ankara, February 13, 1951, RG 56, Acc. 56-66A-816, Special Subject Files, Box 1.

[56] Letter from Auburn to Pehle, September 24, 1943; letter from Burton V. Berry, Consul General in Istanbul, to Secretary of State, "German Foreign Exchange Activities in Turkey," July 30, 1943; "Excerpt from MID Report No. 4120 dated September 24, 1943, at Istanbul, Turkey, Re: Gold Exports," both RG 131, Foreign Funds Control, Subject Files, Box 477; Embassy, Ankara, to Secretary of State, July 3, 1943, RG 319, Army Staff, Assistant Chief of Staff, G-2, Incoming and Outgoing 1942-1945, Box 641, Turkey; Embassy, Ankara, to Secretary of State, March 16, 1944, RG 131, Foreign Funds Control, Subject Files, Box 177, Gold; OSS Report No. 12945 on "Free exchange; gold transactions" in Turkey, January 20, 1944, document obtained from NARA by the World Jewish Congress (precise citation being sought).

[57] Letter from Auburn to Pehle, September 24, 1943, RG 131, Foreign Funds Control, Subject Files, Box 477.

[58] Ibid.

April 30, 1943, "Art. Jewelry" (presumably "articles of" jewelry), worth 215,125 Turkish pounds (approximately $133,000).[59]

Most of the profits from the gold trade in Turkey benefited German officials and operations in Turkey. However, about 16 percent to 20 percent of the gold purchased by the Turkish branches of the two German banks from the Reichsbank was bought with foreign currency supplied to the banks by other Axis or "Axis friendly" diplomats. The profits derived by these diplomats depended upon those German banks, which varied the exchange rates they offered in accordance with German interests or their own whim. In order of volume of gold purchased, the non-German countries whose Legations participated in this trade were: Italy, Spain, Hungary, Romania, Finland, Bulgaria, and Japan, "with isolated deals on behalf of the Swiss and Portuguese Legations."[60] Thus, Germany reaped the following advantages from gold sales by the Deutsche Bank and Dresdner Bank in Turkey: it exchanged looted gold for foreign currency; financed its diplomatic, espionage, and propaganda activities in Turkey; and gained influence over the Turkish operations of certain Axis and neutral countries.

Shortly after Germany's defeat, the United States was able to confirm from Reichsbank records that the gold sold on the Turkish free market by the Deutsche Bank consisted not only of looted central bank gold but also, in all probability, of gold looted from individual victims of Nazi persecution. The Reichsbank's ledgers of gold bars, captured by U.S. forces, made it possible to identify the source of the gold ingots that the Deutsche Bank purchased from the Reichsbank. In 1946 a U.S. study of 1.582 metric tons of gold bars released to the Deutsche Bank by the Reichsbank during the War concluded that 339 kilograms came from "specific conquered areas," primarily Belgium, while another 904 kilograms came from "other questionable sources." The principal source of gold in this latter category was the "Melmer" account in which the SS deposited gold bars, coins, jewelry, and dental fillings that it robbed from its Jewish and non-Jewish victims at the killing centers and concentration camps. The 1946 U.S. study determined that 673 kilograms of the gold ingots ($757,000) that had been released by the Reichsbank to the Deutsche Bank came from the Reichsbank's Melmer account. It further found that 325 kilograms of this gold ($366,000) had been delivered directly to the Reichsbank by the SS in gold bar form, while the remaining 348 kilograms of ingots ($391,500) had been re-smelted by the Degussa company from gold items deposited by the SS. Thus, 42.5 percent of the 1.582 metric tons of gold ingots ($1.8 million) known to have been purchased by the Deutsche Bank from the Reichsbank consisted of gold looted from individual victims of Nazi persecution.[61] Similarly, a postwar study of

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[59] Ibid.; "Excerpt from MID Report No. 2120," ibid.

[60] Letter from Auburn to Pehle, September 24, 1943, ibid.; Embassy, Ankara, to Secretary of State, March 16, 1944, ibid., Box 177, Gold.

[61] It should also be noted that, among the sources of the 339 kilograms of "ostensibly legitimate" gold that the Reichsbank released to the Deutsche Bank were the Prussian Mint (240 kilograms) and Degussa (24 kilograms), both of which smelted victim-origin gold for the Reichsbank. Table II: "Miscellaneous Gold Bars Released to Deutsche Bank according to *Kontrollbuch, Verschiedene Goldbarren* of the Reichsbank," RG 260, FED Group Central Files, Box 440, file 940.60. Reprinted as document IX-13 in Documentary Appendix to the May 1997 Eizenstat Report.

Reichsbank records conducted by Albert Thoms, wartime head of the Reichsbank's Precious Metals Department, showed that the Reichsbank also sold gold bars from the Melmer account to the Dresdner Bank during the period from May to November 1943.[62] Consequently, the gold from the Dresdner Bank that the Swiss Legation turned over to the Turkish Government in September 1945 may have included gold looted by the SS from its victims. The captured Reichsbank records apparently did not make possible a similar study of the origins of the gold coins that the two banks purchased from the Reichsbank and sold in Turkey.

Estimating Turkey's total gold transactions during World War II was difficult, if not impossible, because the bulk of German gold sold in Turkey was absorbed by Turkish private banks and individual hoarders. Between August and September 1943 alone, over $800,000 worth of gold was estimated to have entered Turkey's free gold market.[63] Including the $3.4 million worth of Belgian gold that reached the Turkish Central Bank and the $400,000 worth of gold delivered by Swiss officials to Turkey, Foreign Economic Administration officials estimated the total amount of looted gold to have reached Turkey at somewhere between $10 and $15 million.[64]

J. Allied Attempts To Implement a Safehaven Program in Turkey

Turkey's three months as a belligerent on the Allied side at the close of World War II complicated its inclusion in the Allied Safehaven program. While the United States and its Allies at one time believed that Turkey's status as a belligerent would make it more cooperative with Allied reparation policies, the opposite proved true, as Turkey claimed exemption from policies designed for wartime neutrals.[65] On November 4, 1944, the U.S. Embassy in Ankara encouraged the Turkish Government to agree to the terms of the London Declaration of January 5, 1943, the February 1944 Gold Declaration, and Bretton Woods Resolution VI, collectively the legal basis of the Allied Safehaven program.[66] The Allies received encouraging early signals that Turkey intended to comply with the provisions. By December 1944 the Turkish Government had closed Turkey's six German insurance companies and had begun measures to close its two German banks.[67] Although encouraged by this early progress, the State Department still worried about the fate of the proceeds from these German institutions.[68]

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[62] Herbert Herzog microfilm, Vienna, Austria.

[63] "Secret Information–Censorship Relations Section," September 24, 1943, RG 260, FED Group Central Files, Box 440, file 940.60.

[64] Fletcher to Baker, March 28, 1947, RG 43, Lot File M-88, Conference on German External Assets and Looted Gold, Box 203.

[65] Minutes of Safehaven Meeting, March 27, 1945, RG 131, Foreign Funds Control, Subject Files, Box 388.

[66] Packer to the Secretary of State, February 19, 1945, RG 59, Decimal Files 1945-49, 800.515/2-1945. Attached is the diplomatic note transmitted from Ambassador Steinhardt to the Turkish Minister of Foreign Affairs on November 4, 1944.

[67] Lawson to the Department of State, November 27, 1944, RG 84, Embassy Ankara, Safehaven Files 1945-48, Box 5; Steinhardt to the Secretary of State, December 18, 1944, ibid., Box 2.

[68] Grew to Embassy, Ankara, January 25, 1945, RG 59, Decimal Files 1945-49, 800.515/2-1945.

Following these early actions, the Safehaven program in Turkey stalled permanently. Initial delays were due to concerns about Turkey's wartime status and possible Soviet involvement in the program. In April 1945 a Safehaven group met to discuss drafting a Safehaven note for Turkey and concluded: "we must anticipate and recognize that the form of the note to be drafted presents greater difficulties with respect to Turkey than have been faced with respect to any other country by virtue of peculiarities of Turkish thinking and Turkey's change of status from a neutral to an ally."[69] Disagreement later arose between State and Treasury Department officials over Turkey's Safehaven program as State favored less severe treatment on grounds that Turkey presented a "very ticklish political problem."[70] Eventually, however, the two issues slowing Safehaven investigations in Turkey were resolved. The Allies decided to treat Turkey in a manner analogous to other neutrals, and, in agreements made at the Potsdam Conference (July 16-August 1, 1945), the Soviet Union waived all claims to German external assets in favor of the Western Allies, removing any Soviet influence from Turkey's Safehaven program.[71]

A more complex problem affecting early proposals for an Allied Safehaven program in Turkey was how to deal with Turkey's holdings of German looted gold, including the Belgian gold. State and Treasury Department officials initially proposed asking Turkey to provide documentation outlining the origins of its entire gold supply,[72] but British officials and U.S. Ambassador Edwin Wilson objected on the grounds that the Turkish Government lacked the administrative capacity necessary to fulfill such a request. Moreover, as Ambassador Wilson noted, the fact that "the British and United States have not made identical demands on the other unoccupied United Nations or even neutrals would undoubtedly be noticed by the Turks. They expect treatment identical to that which has been given to the other United Nations which have not been occupied by the enemy and they do not consider themselves in the same category as neutrals."[73]

This position was persuasive in Washington, and the United States subsequently dropped any plans to request Turkey to provide detailed information about its gold supply.[74]

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[69] Minutes of Safehaven Meeting, April 25, 1945, RG 131, Foreign Funds Control, Subject Files, Box 388.

[70] Feig to Shwartz, May 26, 1945, ibid., Box 383.

[71] Klayman to Martin, March 29, 1946, RG 59, Decimal Files 1945-49, 800.515/3-2946; *Foreign Relations*, 1945, vol. II, p. 896.

[72] Memorandum for the Files, "Safehaven Program in Turkey," September 4, 1945, RG 131, Foreign Funds Control, Subject Files, Box 1.

[73] Wilson to the Secretary of State, November 15, 1945, RG 84, Embassy Ankara, Safehaven Files, 1945-48, Box 4.

[74] Wilson to the Secretary of State, January 14, 1946, RG 59, Decimal Files 1945-49, 800.515/1-1446. Attached are proposed Safehaven demands to be presented to Turkey minus the questions regarding its gold supply.

K. Attempts at a Postwar Allied-Turkish Agreement on Restitution and Reparation of Looted Gold and German External Assets

On March 28, 1946, the United States, Britain, and France formally presented Turkey with a proposed program for the restitution of looted monetary gold and the application of German external assets to the reconstruction of Europe on the basis of the agreements and policies developed at the Potsdam Conference in July-August 1945 and the Paris Reparations Conference of November 1945-January 1946. The Allies called on Turkey to comply with the principles of the 1943 London Declaration, the February 1944 Gold Declaration, and Bretton Woods Resolution VI, as well as to assume control over all enemy assets and to liquidate all enemy commercial institutions.[75] Although the proposal made no suggestion that Turkey would have to surrender German assets in the country, the Allies maintained that, under Allied Control Council (ACC) Law No. 5 of August 1945, the Allied Control Council could claim these assets as the de facto government of Germany.[76] The U.S. Embassy in Ankara had estimated total German assets in Turkey at $51.2 million for the purposes of the Allied Reparations Commission. After accounting for the potential variability in private holdings of German looted gold, estimates of Turkey's Nazi assets rose as high as $71 million.[77]

In August 1946 the Turkish Government set forth its basic position on the restitution of gold and assets in a note that reaffirmed its acceptance in principle of the January 3, 1943, and February 22, 1944, Allied declarations and Bretton Woods Resolution VI, but with important, critical qualifications, all of which focused on Turkey's intention not to give up control over the disposition of German external assets. Turkey insisted that it maintain sole jurisdiction over its program of liquidating enemy property and that the proceeds of the liquidation be used first to satisfy Turkish war claims against Germany.[78] Turkey reaffirmed these reservations in December, adding that it was not bound by international agreements that it had had no part in framing (i.e., the 1946 Paris Reparations Agreement). Turkish officials further claimed that under international law enemy property found in a belligerent state was entirely subject to the authority of that state.[79]

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[75] *IARA Final Report.*

[76] Klayman to Martin, March 29, 1946, RG 59, Decimal Files 1945-49, 800.515/3-2946.

[77] Wilson to the Secretary of State, November 8, 1945, RG 84, Embassy Ankara, Safehaven Files, 1945-48, Box 4; Fletcher to Birch, February 18, 1946, RG 59, Decimal Files 1945-49, 800.515/1-1846. $51.2 million was the official figure used in reparations discussions at the Potsdam Conference; see *Foreign Relations*, The Conference of Berlin (The Potsdam Conference), 1945, vol. II, p. 959.

[78] *IARA Final Report*; Bursley to the Secretary of State, September 24, 1946, RG 59, Decimal Files 1945-49, 800.515/9-2446. The full text of the Turkish response to Allied Safehaven provisions is in Embassy, Ankara, to the Department of State, September 27, 1946, ibid., 800.515/9-2746.

[79] Wilson to the Secretary of State, January 1, 1948, RG 84, Embassy Ankara, Confidential Files, Safehaven, Box 35. The full text of the Turkish response was transmitted by letter from the Embassy, Ankara, to the Department of State, January 2, 1948, ibid.

L. U.S.-Turkish Relations: From "Live and Let Live" to the Truman Doctrine

The Allied efforts to obtain agreements with Turkey in 1946 for the restitution of gold and return of German external assets were never pressed with vigor and were, in fact, totally overshadowed by a major change in relations between and among the Allies and with Turkey. The change began in 1945 when the Soviet Union launched its diplomatic campaign to bring about a revision of the international convention regulating the Turkish straits, to establish bases on the straits, and to obtain the cession of territory in eastern Turkey to the Soviet Union. The possible change of the Montreux Convention regarding the straits was discussed at the Potsdam Conference in July 1945. In preparation for the Potsdam Conference, the State Department policy paper on Turkey reflected no perceived U.S. national interest in Turkey:

> "Since the time of Admiral Bristol, relations between the United States and Turkey have been friendly and profitable. We have no special objectives with regard to Turkey itself beyond those normal to peaceful intercourse. Our attitude so far as Turkish-American relations are concerned is 'live and let live.'"[80]

Major changes in U.S. policy toward Turkey in 1946 and 1947 had both economic and geopolitical grounds. In the summer of 1946, changes in the world chromite situation prompted the State Department to seek improved U.S.-Turkish relations with the goal of a modernized economic relationship based on a new treaty of friendship and commerce that included a chromite arrangement.[81] After Turkey's requests for major economic loans from private American banks were rejected in the summer of 1946, State Department policy-makers considered a major government-funded economic assistance program in the Middle East, including Turkey. Differences within the State Department pitted the geographic-political experts, led by Assistant Secretary of State Loy Henderson who favored the use of aid to further U.S. foreign policy, against the functional bureaus of the Department, many of them staffed by experts from the wartime agencies who shared the views of the Treasury Department, which urged sound, normal banking and economic practices. No major economic development program came about in 1946, and all that could be managed for Turkey was a $25 million Export-Import Bank loan for some specific business projects, as well as some aid in the form of $10 million in liquidated wartime Lend-Lease equipment stored in the Middle East, which began to reach Turkey in 1946.[82]

Additional impetus for the major change in U.S.-Turkish relations came from the Soviet Union. Soviet aggressiveness in Germany, Eastern Europe, and Iran during 1946

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[80] *Foreign Relations*, The Conference of Berlin (The Potsdam Conference), 1945, vol. II, pp. 1015-1017.

[81] David Alvarez, *Bureaucracy and Cold War Diplomacy: The United States and Turkey, 1943-1946* (Thessaloniki, 1980), p. 87, cites Department of State papers in the James F. Byrnes papers at Clemson University.

[82] The dispute with the State Department between political and economic experts over aid to Turkey is reviewed in Alvarez, *Bureaucracy and Cold War Diplomacy*, pp. 88-89.

culminated in a demand by the Soviet Union in August 1946 that it join Turkey in managing passage through the Turkish straits to the Black Sea. The United States promptly rejected the Soviet request, and by September 1946 Secretary of State James Byrnes gained British and French support for a major military and economic assistance program for Turkey. The British would continue their prewar and wartime lead in providing military assistance while the United States would provide massive economic aid.

The plan to give economic aid to Turkey, endorsed by President Truman in October 1946, was pushed through despite the continuing resistance from economic experts in the State Department. Ultimately, when Britain in February 1947 informed the United States that it could no longer afford the responsibility for maintaining Greece and Turkey, the entire burden of both military and economic assistance and regional development shifted to the United States. The mounting concern over the growing Soviet threat to both Greece and Turkey culminated in President Truman's request to Congress on March 12, 1947, for major economic and military aid to Greece and Turkey to forestall expansionist Communism.[83] In May 1947 President Truman signed a bill granting $150 million in aid to Turkey to strengthen it against a possible Soviet attack. By July 1947 the United States and Turkey had signed the requisite aid agreements.[84]

M. Failure To Reach Agreements With Turkey on Restitution of Gold and German External Assets, 1947-1953

Negotiations between Turkey and the Allies on the restitution of gold and German external assets resumed in Ankara on June 2, 1947, and lasted until July 9. Turkey restated its now-familiar arguments that it was not bound by the Paris Reparations Agreement and could, as a belligerent, dispose of enemy assets in its territory as it wished.[85] The only new development during these negotiations was the Turkish assertion that the value of Axis assets in Turkey was considerably less than its war claims. U.S. negotiators found the Turkish accounting highly suspicious. First, instead of the customary practice of claiming expenses in periods of belligerency, Turkey listed all its defense expenses between 1939 and 1945.[86] Second, Turkish officials stated that it was

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[83] Turkey was not one of the 13 nations invited by the United States, Britain, and France to attend the Paris Reparations Conference in November 1945. Only countries that had a real participation in the War, had a war burden attributed to Germany, or had major damage claims arising from the War were invited. No neutral or former neutral was invited. The official U.S. record of the process for inviting states to join the Reparations Conference is in *Foreign Relations*, 1945, vol. III, pp. 1238 ff.

[84] The debate within the U.S. Government over the changing policy toward Turkey and the Middle East and the search for means to aid Turkey is fully documented ibid., 1946, vol. VII, pp. 1-17 and 801-923. For texts of President Truman's request, P.L. 75, providing for assistance to Greece and Turkey, and the U.S.-Turkish agreement on aid, see *A Decade of American Foreign Policy, 1941-1949: Basic Documents*, pp. 530-546, passim.

[85] *IARA Final Report.*

[86] Memorandum for the Files, June 26, 1947, RG 84, Embassy Ankara, Safehaven Files, 1945-48, Box 4.

their "conviction" that the Turkish Central Bank had made no transactions involving looted gold, and they refused to divulge information on specific gold transactions.[87]

Directly following the conclusion of these talks, the Allies presented the Turkish Government with a proposed settlement. Under the agreement, Turkey would hand over its $3.4 million worth of Belgian gold and any other looted monetary gold in its possession. In addition, Turkey would return any other property found to have been stolen by the Germans, place controls on its German assets, and begin liquidating those assets. Finally, Turkey would not use German assets to settle its own claims against Germany until the issue could be further negotiated between the Allied governments and Turkey.[88]

On July 15, 1947, the Turkish Government agreed to return 3,000 kilograms of gold ($3.4 million) and adhere to the main Safehaven governing decrees. The Treasury Department pledged to accept Turkey's offer if it also furnished detailed information on all of its gold acquisitions since January 1939 from the Axis and countries formerly occupied by the Axis.[89] The Turkish Government refused to comply and never returned to its proposal of July 1947. Moreover, on July 22 it approached the Bank of England about the possibility of re-smelting 8 tons of ingots of varied and relatively low fineness and 3 tons of miscellaneous gold coinage ($12.4 million altogether). The Bank refused the request as there was a certainty among the Allies that the gold was looted; its description matched reports of some low-grade coins believed to have been looted by Germany.[90] In January 1948, as a result of Turkey's request to the Bank of England to have the gold re-smelted, the United States, Britain, and France approached Turkey to demand 249 bars of looted Belgian gold, 32,000 coins, and 243 kilograms of gold ingots, which had been delivered to Turkish authorities by Swiss officials in charge of German affairs (some of this gold came from the Dresdner Bank and may have included gold looted from victims of Nazi persecution). The Turks failed to respond to the note, but in a meeting at the State Department in March, Turkish officials disavowed any knowledge and suggested that "Germans" may have substituted looted gold for gold that Turkey had bought in Switzerland.[91]

At the Conference on Economic Security held in Paris April 26-May 7, 1948, the United States, Britain, and France sought to develop a new strategy for negotiations with Turkey and other nations that were remiss in meeting postwar restitution and reparations

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[87] Memorandum for the Ambassador, July 9, 1947, ibid.

[88] Wilson to the Secretary of State, July 12, 1947, RG 59, Decimal Files 1945-49, 800.515/7-1247.

[89] Memorandum to the Files, July 15, 1947, RG 56, Acc. 70A-6232, Legal Records, Box 22.

[90] Memorandum for the Files, "Gold Transactions in Turkey," September 3, 1947, RG 59, Decimal Files 1945-49, 800.515/9-347. The memorandum contains numerous documents detailing the controversy surrounding the Bank of England incident as well as the purchase of the Belgian gold in March 1943. The coins had been minted by the Latin Union, a late 19th-century monetary union that attempted to create a uniform gold currency based on the French franc. Its members included France, Belgium, Italy, Switzerland, and Greece.

[91] Tripartite note, January 10, 1948, RG 84, Embassy Ankara, Safehaven Files, 1945-48, Box 4; memorandum of conversation, March 3, 1948, RG 43, Lot File M-88, Council of Foreign Ministers Records, Conference on German External Assets and Looted Gold, Box 203.

goals. "With regard to Iceland, Turkey, Lebanon, Syria, Iraq, Iran, Saudi Arabia, Ethiopia, Liberia, Siam, and China, the U.S. Delegate [Seymour J. Rubin] emphasized that there is little hope of securing any proceeds for the benefit of IARA and that the three powers are really wasting time in attempting to secure any, and that we should make a final effort to secure liquidation of German assets for security reasons and then terminate our efforts altogether."[92] While Britain and France agreed generally with the U.S. position, they still desired to pursue German assets in Turkey. U.S. officials subsequently revised their position and agreed to accept Turkey's last proposed offer of December 30, 1947, which offered the three Allied governments any balance of sums realized from the liquidation of German assets after all Turkish claims against Germany had been satisfied.[93] On October 20, 1948, the Allies approached the Turkish Government about reopening negotiations, stating that "the three Governments desire to make it clear that while they in no way desire to infringe Turkish sovereignty, they cannot concede either the principle that belligerency of itself offers absolute title to all enemy assets or that the enemy has no rights."[94]

The Turkish Government did not respond to requests to reopen talks. It took the position that it would not have the executive authority to negotiate a settlement until appropriate legislation passed the Grand National Assembly. On March 25, 1950, however, the Turkish National Assembly adjourned without voting on a proposed bill granting the government authority to negotiate and conclude an agreement on German assets and the restoration of looted gold.[95] Privately, Turkish officials admitted that Turkey had more German assets than the amount of their claims, but they found no particular advantage in paying war reparations to the Allies.[96]

In their final attempts to reach a settlement with Turkey, the Allies conceded that Turkey, having entered the War in February 1945, was "not technically a neutral" in World War II. Accordingly, the Allies were prepared to relinquish claims to German external assets in Turkey in exchange for a satisfactory settlement on looted monetary gold. The Paris Reparations Agreement of January 1946 provided that all gold found in Germany and all looted gold recovered from "third countries" should be turned over to the gold pool assembled by the Tripartite Gold Commission. Turkey was to be assured that the term "third countries" was intentionally used so as to include countries such as Turkey.[97] U.S. officials specifically sought to receive payment for Turkey's Belgian gold

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[92] *Foreign Relations*, 1948, vol. II, p. 862. See also Schwartz to Bitterman, January 29, 1952, RG 56, Office of International Finance.

[93] *Foreign Relations*, 1948, vol. II, p. 854.

[94] Webb to the U.S. Embassy, Ankara, June 16, 1949, RG 59, Decimal Files 1945-49, 800.515/6-2149. A draft of the note given to the Turkish Government is in U.S. Embassy, Ankara to the Department of State, September 9, 1948, ibid., 800.515/9-948.

[95] Hadraba to the Department of State, April 20, 1950, ibid., Decimal Files 1950-54, 262.0041/4-2050.

[96] Hadraba to the Department of State, October 26, 1951, RG 43, Lot File M-88, Conference on German External Assets and Looted Gold, Box 203.

[97] Airgram A-180 to Ankara, February 13, 1951, RG 56, Acc. 56-66A-816, Special Subject Files, Box 1.

($3.4 million) and the gold delivered by the Swiss from the Ribbentrop account ($400,000). Allied negotiators had long since given up obtaining compensation from Turkey for the estimated $5-$10 million worth of gold sold on the Turkish free market by German diplomats and banking officials.[98] Ultimately, the Allies arrived at the "bargain offer" of $1 million for Turkey to contribute to the international gold pool. The figure was based on the restitution from other neutral countries of looted gold on a percentage basis varying from 25 to 100 percent.[99] Turkey failed to respond to these Allied proposals as it had likewise failed to respond to other proposals after July 1947.[100]

At a meeting held in Washington January 6-21, 1953, U.S., British, and French representatives took the position that their governments had "exhausted all diplomatic means to induce the Turkish Government to conclude the suggested settlement." Under the circumstances, the only course of action left was to notify Turkey that the current offer of $1 million of gold would remain open until April 1, 1953; if Turkey failed to accept, the Tripartite Gold Commission would highlight its negligence to the IARA as well as to countries whose monetary gold was looted during World War II. Moreover, the United States, Britain, and France would give technical assistance to any country seeking to regain its gold from Turkey. The three governments left to the Turkish Government the responsibility for negotiating directly with Germany on the disposition of German assets in Turkey without reference to Allied legal claims.[101]

In the end, the Allies reached no agreements with Turkey for either the restitution of looted gold or for the application of liquidated German external assets to the assistance of the victims of Nazism. Turkey returned no looted gold to the Tripartite Gold Commission, and turned over no money either to the International Refugee Organization for the support of refugees or to the Inter-Allied Reparations Agency for reparations.

In its Final Report to Member Governments in September 1961, the IARA summarized the failed Allied-Turkish negotiations and concluded as follows:

> "The Allied representatives could not recognize the principle of prior discharge in full of Turkish claims from proceeds of liquidations of assets. The discussions at official levels were therefore suspended. For six years after August 1947 the Three Governments made numerous attempts to induce the Turkish Government to recognize the rightful claims of the Governments which had signed the Paris Reparation Agreement. They failed. Finally, when an offer of compromise settlement made on March 22, 1952, remained without response from the Turkish Government, the three Negotiating Powers had no alternative but to notify that Government, on August 11, 1953, that they had decided to inform those whom they represented that their efforts had been to no avail."

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[98] Fletcher to Goldstein, July 29, 1948, RG 43, Lot File M-88, Conference on German External Assets and Looted Gold, Box 203.

[99] Acheson to the U.S. Embassy, Ankara, February 13, 1951, RG 56, Acc. 56-66A-816, Box 1.

[100] *IARA Final Report.*

[101] Tripartite Meeting on German External Assets and Looted Gold, January 6-21, 1953, RG 43, Lot File M-88, Box 197.

No further negotiations were ever undertaken on these matters by the United States or its allies.

The Fate of the Wartime Ustasha Treasury[1]

A. Establishment of the Wartime Croatian Ustasha Regime

In the wake of the German blitzkrieg through Yugoslavia and Greece in March and April 1941, the flight abroad of the King of Yugoslavia and government leaders, and the dismemberment (with the participation of Bulgaria, Hungary, and Italy) of Yugoslavia, the so-called independent state of Croatia was established on April 10, 1941. A government composed of members of the Fascist Croat Ustasha political movement, headed by Ante Pavelic, was proclaimed a protectorate of Italy in May 1941, and was in fact supported throughout World War II by both Italian and German occupation forces. President Roosevelt denounced the invasion and dismemberment of Yugoslavia, and on May 18, 1941, Acting Secretary of State Sumner Welles acknowledged the intention of the Yugoslav Government in Exile not to recognize the so-called "independent" Croat state, and expressed the indignation of the U.S. Government for "the invasion and mutilation" of Yugoslavia in creating the Croatian protectorate. Soon thereafter the Croatian police closed and sealed the U.S. Consulate in Zagreb, and the American Consul left Zagreb in June 1941. Throughout the War, U.S. policy was to avoid any action that might carry the implication of acknowledging the Croatian protectorate.[2]

The Balkans were not a major theater of operations for Allied military forces, but the Allies did provide support to the Yugoslav guerrilla forces fighting the German and Italian occupation armies. President Roosevelt and Prime Minister Churchill and their advisers encouraged and supported the guerrilla effort, and U.S. and British special forces units were engaged in the struggle between the competing partisan armies—the Chetniks

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[1] This chapter is based on published and unpublished Department of State and other agency records; official and unofficial records collected on behalf of the Department of the Treasury; copies of records supplied by the British Foreign and Commonwealth Office as well as published official records and accounts about Britain in World War II; official published records of the wartime diplomacy of the Vatican and other commentary and advice; information about the wartime and postwar experiences of the puppet Ustasha regime; copies of records researched at the National Archives and Records Administration on behalf of the World Jewish Congress; and records supplied by the U.K. Holocaust Educational Trust. Beginning in 1964, the Vatican published 11 volumes of the official record of the diplomacy of Pope Pius XII, entitled *Secretaire d'Etat de Sa Saintete, Actes et Documents du Saint Siege relatifs a la Seconde Guerre Mondiale* [*Records and Documents of the Holy See Relating to the Second World War*], edited by Pierre Blet, Robert A. Graham, Angelo Martini, and Burkhart Schneider (Vatican City, 1964-1981). The last volume, published in 1981, covers events through June 1945.

[2] The exchanges between the Yugoslav Government in Exile and the United States regarding the dismemberment of Yugoslavia and the creation of a Croat protectorate are in *Foreign Relations*, 1941, vol. II, pp. 979-984. In 1954 the U.S. Foreign Claims Settlement Commission concluded that the postwar Yugoslav Government had no responsibility for the actions of the "puppet government" or "local de facto government" that existed in Croatia during World War II. See Marjorie Whiteman, ed., *Digest of International Law*, vol. 8, pp. 835-837. By the end of 1944, the U.S. Office of War Information categorized the Ustashi as "collaborationists" who would be punished by the postwar Yugoslav Government or as "war criminals" to be punished by international action. (Department of State, Historical Policy Research Project No. 61, "United States Policy Toward the Ustashi," RG 59, Decimal Files, 740.00116-EW)

and the Communist-dominated Partisans. The Croatian Ustasha regime was a primary object of Yugoslav guerrilla campaigns, but it was not a significant target of Allied intelligence activities nor did it gain the attention of diplomatic policy-makers. British intelligence sought for a time to maintain contact with high-ranking officials of the puppet Croatian government, but the contact ended after Ustasha leader Ante Pavelic recognized that the Allies intended to support the Partisans.[3] Allen Dulles' wartime OSS Mission in Bern, Switzerland did attempt to monitor the activities of the Ustashi. Aware the Ustashi were persecuting the Jews, Serbs, and Sinti-Romani, Dulles sought to maintain contact with anti-Fascist elements in Croatian territory.[4]

U.S. and British leaders were aware to some extent of the murderous efforts of the Ustashi regime against the Serbs, Jews, and Sinti-Romani peoples living in Croat-controlled territory. It is not clear if the Allied leaders clearly grasped that as many as 700,000 victims, most of them Serbs, had been killed at the Ustasha death camps at Jasenovac and elsewhere by the most ruthless and primitive methods, including mass shootings, clubbings, and decapitation.[5] U.S. authorities clearly had an understanding of what was happening to the Serbs in territory under Ustasha control if not to the Jews and Sinti-Romani people. In August 1941 Yugoslav Ambassador Constantin Fotich received from the Chief of the State Department's Balkan Desk a report describing the Ustashi "comprehensive policy of extermination of the Serb race in the Independent State of Croatia" and relating the brutal and atrocious killings being committed.[6]

On December 20, 1941, Fotich called on President Roosevelt and reviewed with him a memorandum about the atrocities being committed against the Serbs. The President was shocked by the report and wondered how, after such crimes, the Serbs could expect to live in the future in the same state with the Croats.[7] When British Foreign Secretary Anthony Eden visited the White House in March 1943 to review Allied war

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[3] U.S. Counter-Intelligence Corps Report 5228, July 23, 1947, RG 226, E174, B243, F52.

[4] Neal H. Petersen, *From Hitler's Doorstep: The Wartime Intelligence Reports of Allen Dulles, 1942-1946* (Philadelphia, 1996), pp. 46, 63-64, 147, 177, 257, and 573.

[5] The Allies began receiving refugees from Yugoslavia in Italy in the final months of 1943 after the Allied landings in Italy in September 1943. Few were Jewish. The Nazis/Ustashi had exterminated the Jews. While Yugoslavs were allowed to move to British camps in Egypt, the British would not allow the Jews, who remained in Italy, to enter Egypt. See David S.W. Wyman, *The Abandonment of the Jews: America and the Holocaust, 1941-1945* (New York, 1984), p. 227. Regarding the refusal to allow the few Jews among the Yugoslav refugees to enter Egypt in 1944, see also Bernard Wasserstein, *Britain and the Jews of Europe, 1939-1945* (London, Oxford, 1979).

Croatian President Tudjman has reviewed various estimates and assertions of the number of Serb, Jewish, Sinti-Romani, and Croatian victims of the Ustasha death camps, Jasenovac in particular but elsewhere in wartime Croatia. He dismisses the estimates by various Yugoslav experts ranging from 500,000 to 700,000 deaths at Jasenovac as inaccurate and "mythical." His own estimate is that 30,000 to 40,000 inmates died at Jasenovac and that some 60,000 victims died at the hands of the Ustashi throughout Croatia. See Franjo Tudjman, *Horrors of War: Historical Reality and Philosophy*, rev. ed., translated by Katarina Mijatovic (New York, 1996), pp. 14-17, 67-69, 226, 231-233.

[6] Constantin Fotich, *The War We Lost: Yugoslavia's Tragedy and the Failure of the West* (New York, 1948), pp. 117-118.

[7] Ibid., pp. 128-129.

aims, he heard President Roosevelt's "oft repeated opinion" that the antagonism between the Croats and the Serbs ruled out their being in the same state and that the Croats should be put under a trusteeship. The President expressed similar views to Secretary of State Hull in early October 1943 on the eve of Hull's attendance at the Moscow Foreign Ministers Conference.[8]

The Vatican, which maintained an "Apostolic visitor" in Zagreb from June 1941 until the end of the War, was aware of the killing campaign, which started with the internment of most of the 35,000 to 45,000 Croatian Jews in the spring and summer of 1941, and continued with the flight of up to 5,000 Jews from the German-occupied areas of the Croatian state to the Italian portion of the protectorate, and the deportation to Germany of all remaining Croatian Jews beginning in July 1942. Croatian Catholic authorities condemned the atrocities committed by the Ustashi, but remained otherwise supportive of the regime. During his March 1943 visit to Croatia, German Interior Minister Heinrich Himmler demanded that the few remaining Jews be deported to Germany (including those who had been baptized Catholics or married to Catholics). Germany continued its efforts throughout the War to compel the Italians to deport those Jews who had found sanctuary in Italian-occupied Dalmatia. Many of them ultimately found safety on the island of Rab off the Dalmatian coast.[9] The German occupiers boasted that the Jewish population of Croatia had been wiped out by early 1944 (except for those who managed to gain Italian protection or escaped to join the Partisans).[10]

B. The Ustasha Treasury and Its Move to Switzerland

Postwar reports indicated that some portion of the treasury of the Ustasha regime comprised the valuables stolen from the dispossessed and deported victims of the Ustashi ethnic cleansing campaign. U.S. intelligence experts concluded after the War that Ustasha leaders at one time had at their disposal more than $80 million (350 million Swiss francs), mostly composed of gold coins, some of which were plundered from the victims of the Croatian Holocaust.[11] Other unevaluated reports in the early 1950s

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[8] Robert E. Sherwood, *Roosevelt and Hopkins: An Intimate History* (New York, 1948), p. 711, and *Foreign Relations*, 1943, vol. I, p. 543.

[9] A detailed account of Vatican relations with the puppet Croatian regime and Vatican concerns about and efforts on behalf of the Jews is presented in John F. Morley, *Vatican Diplomacy and the Jews During the Holocaust* (New York, 1980), pp. 147-165. Morley's account is based largely on the first nine volumes of the Vatican's official diplomatic record, *Secretaire d'Etat de Sa Saintete, Actes et Documents du Saint Siege relatifs a la Seconde Guerre Mondiale* [*Records and Documents of the Holy See Relating to the Second World War*]. Morley's account, which ends in 1943 and emphasizes the perfunctory nature of official Vatican efforts on behalf of the Croatian Jews, particularly those newly-baptized, could be confirmed or amended if the Vatican were to open completely its records of the wartime diplomacy Pope Pius XII. A summary of official Croatian Government information about the wartime Ustasha regime gold holdings and their postwar dispositions is in Section F below.

[10] An estimated 6,000 Croatian Jews survived the war, according to Raul Hilberg, *The Destruction of the European Jews*, revised and definitive edition (New York, London, 1985), vol. II, pp. 708-718.

[11] SSU Information Report, Subject: "Yugoslavia: Present Whereabouts of Former Ustashi Officials," October 11, 1946, CIA Operational Files; letter from Emerson Bigelow, Strategic Services Unit (SSU), to Harold Glasser, U.S. Treasury, October 21, 1946, RG 226, Entry 183, Box 29, 1946. The SSU

suggested that the treasury was smaller and its disposition less certain. In 1944 the Ustasha regime began to move assets into Swiss bank accounts for safekeeping.[12] On May 31, 1944, the Swiss National Bank accepted 358 kilograms of gold (worth approximately $403,000) from Croatia, and another 980 kilograms (worth $1.1 million) on August 4, 1944.[13]

The Croatian gold deposit of August 4, 1944, which was accepted by the Swiss National Bank for deposit and not for purchase, was transferred to Switzerland without the Bank's prior knowledge and without the issuance of the requisite permit. The Swiss National Bank nevertheless accepted the illegal delivery and allowed the gold to enter the account of the Croatian State Bank established with the original May 31 deposit. The Croatian gold shipped to the Swiss National Bank in August 1944 would seem to have been the same 980 kilograms of gold taken in 1941 by the Croatian authorities from the Sarajevo branch of the central bank of the dismembered Kingdom of Yugoslavia. There is reason to believe that this segment of Yugoslavia's prewar gold reserve was somehow gotten out of wartime Croatia without the knowledge or consent of the Ustasha regime. The Croatian gold shipped to Switzerland in August 1944 accompanied 25 tons of silver bought by the Swiss National Bank to mint coins. In October 1944 representatives of the Croatian puppet government sought unsuccessfully to persuade the Swiss National Bank to allow the transfer of gold in the Croatian account to Germany. In December 1944 the Swiss National Bank refused the Croatian request for the return of the gold to Zagreb, and the Swiss Federal Council froze all Croatian assets in Switzerland.[14]

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was the postwar successor in the War Department to the Secret Intelligence (SI) Branch of the OSS. According to published sources, Emerson Bigelow served as a financial expert/consultant in pre-war years to the U.S. Government. During the War he was responsible for establishing and maintaining an operation to provide funds for both overt and covert OSS operations, and continued to provide financial advice to the Defense Department and the CIA for several years after the War. See in particular *The American Cyclopedia of American Biography*, vol. 53, pp. 184-185. In 1946 Bigelow was in the SSU, and was responsible for liaison with the Treasury Department.

Unevaluated information obtained by the CIA in 1951 and derived from the claims of a former wartime Croatian Government Minister indicated that 350 kilograms of gold and 1,100 karats of diamonds remained of the wartime Croatian treasury in the first months after the flight of the Ustashi at the end of the War. This remainder was hidden for a time in Austria, where a portion of it fell into the hands of the British, and the balance of 250 kilograms of gold and the diamonds was eventually turned over to Ante Pavelic who, with others, escaped to Argentina. (Information Report, Subject: "Croatian Gold Question," February 2, 1951, CIA Reference Files) Another unevaulated CIA report of April 1952 alleged that Pavelic sent to Austria at War's end 12 cases of gold and jewels which were hidden near Salzburg, Austria. According to this report, Pavelic arranged for the recovery of this loot in 1951 and sought in 1952 to sell 200 kilograms of gold in Buenos Aires. (Information Report, Subject: "Transfer of Croatian Gold to Argentina," April 16, 1952, CIA Reference Files)

[12] CIG Intelligence Report, "Subject: Dr. Ante Pavelich," May 6, 1947, CIA Operational Files.

[13] Despatch 21,263 from London, February 26, 1945, with attachments, RG 59, Decimal Files 1940-45, 740.00116/2-2645, and telegrams 7987 from Bern, December 27, 1944, and 10467 and 10468 from London, November 27, 1944, RG 131, Box 457, File 1942-1950.

[14] According to the report of the Swiss Independent Commission of Experts, "Gold Transactions in the Second World War," December 1997, p.14, Switzerland neither purchased gold from or sold gold to the Croatian Ustasha regime. The transfer of 358 kilograms of gold from Croatia to Switzerland on May

U.S. intelligence became aware that transfers of some sort were going on by the end of 1944. The OSS Mission in Bern reported that 500 kilograms of gold bars ($562,500) with German markings had been brought to Switzerland from Zagreb, and the Croat State Bank had deposited 2.5 million Swiss francs ($580,000) in another account in Switzerland.[15] An OSS report in July 1945 concluded that Croat-owned commercial accounts in Bern totaled more than 400,000 Swiss francs ($93,000), and other Croat accounts contained deposits of Croatian and Austrian currency.[16] A U.S. intelligence report commenting on the arrival in Argentina in 1949 of Franjo Cvijic, the wartime head of the Croat State Bank who had been in Switzerland at the end of the War negotiating commercial agreements, indicated that the Ustasha regime assets in 1945 included 2.5 million Swiss francs in currency (about $580,000), 1,700 kilograms of gold in bars (about $1.9 million), and about 40,000 kilograms of silver (about $915,000).[17] According to a postwar Belgrade press report, the Croat State Bank deposited 1,000 kilograms of gold ($1.1 million) in Switzerland during the War.[18] Other U.S. intelligence reports noted that the Swiss Government froze Croatian Government accounts in Swiss banks at the end of

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31, 1944, and the transfer of 980 kilograms of gold and the sale of 25 tons of silver to the Swiss National Bank on August 4, 1944; the refusal of the Bank to allow transfer of the Croatian gold to Germany in October 1944; and the decision of the Swiss Government to freeze Croatian assets in Switzerland, are the subject of documents published in the official record of Swiss foreign policy, *Documents Diplomatiques Suisses*, vol. 15, August 1943-August 1945, pp. 547-548, 706-707, and 782. Additional information about the movement of Croatian gold and silver to the Swiss National Bank during the War, provided by the Historical Section of the Task Force of the Swiss Federal Department of Foreign Affairs, indicates that the Swiss National Bank returned all 1,338 kilograms of gold in 121 ingots in the account of the wartime Croatian regime to the National Bank of Yugoslavia on July 24, 1945, in response to the request of the new Yugoslav Government.

According to the 1971 Report of the Tripartite Gold Commission, vol. I, p. 64, the TGC was informed by the Yugoslav Government of the return by Switzerland in July 1945 of the 980 kilograms of "Croatian gold" that had been taken from the Sarajevo branch of the Yugoslav State Bank in 1941. But the TGC either was not informed of or did not report information regarding the return of the additional 358 kilograms of gold the Ustasha regime shipped to Switzerland during the War. It cannot be determined whether this 358 kilograms was some other prewar monetary gold or whether it was non-monetary gold gathered by the Ustashi during the War—perhaps from victims of detention, deportation, or murder. According to the 1971 TGC Report, the 980 kilograms of gold of the former State Bank of Yugoslavia was "caused to be transferred for safekeeping to the Swiss National Bank" in August 1944 by "patriotic officials" of the so-called Croatian State Bank.

[15] Bern OSS Memorandum, Subject "Croatian Gold," December 7, 1944, RG 226, Entry 108, Box 2.

[16] Bern Safehaven Report No. 74, Subject "Supplementary Report on Funds Held for Others by the Société General de Surveillance S.A.," July 12, 1945, ibid., Entry 183, Box 6, Folder 32.

[17] Information Report, June 17, 1949, Subject: "Franco Cvijic (Civic)," CIA Operational Files. The report indicates that Cvijic was arrested by U.S. authorities and imprisoned before being paroled by the U.S. military authorities. His escape from Europe to Argentina was, the report further indicates, probably arranged by Father Krunoslav Dragonovic.

[18] Belgrade, Yugoslav Home Service, "Yugoslav Gold Reserve Put In Order," July 30, 1946, RG 226, Entry 183, Box 27, Folder 152. According to this press release, which reported that 1,000 kilograms had been returned to the Yugoslav Government, 10 tons of Yugoslav Government gold, seized by Italian troops during the occupation of Belgrade in 1941, were found in postwar Germany. This gold was handed over to the Tripartite Gold Commission.

the War worth a total of 15-16 million Swiss francs ($3.5-3.7 million) in part as compensation for outstanding Croatian debts.[19] U.S. intelligence officers were of the view that all the puppet Croatian government funds moved to Switzerland had been controlled by Dr. Josip Cabas, an official of the Croatian Ministry of National Economy and later the Chief of the Croatian Commercial delegation in Switzerland. After the War Cabas reportedly sought to use the Ustasha funds, amounting to 12-16 million Swiss francs, to purchase arms for the Communist Yugoslav Government, but the Swiss resisted, preferring to use the funds to pay old debts.[20]

C. The Ustasha Gold in British-Occupied Austria

The final military collapse of the German army in Croatia and its puppet Ustasha forces began in April 1945 as Tito's Partisan forces launched their final offensive and quickly seized Zagreb. While the general German surrender occurred on May 9, the beleaguered German forces and their Ustasha and Chetnik allies battled on until a final capitulation on May 15. In the midst of these final military actions, leaders of the puppet Croatian regime, carrying with them some portion of the Ustasha treasury, sought to escape through Austria to Italy. U.S. intelligence reports indicate that the fleeing Ustasha leaders carried at least part of the treasury with them into the British zone of occupation of Austria where it was seized by the British authorities. According to these sketchy reports, Ustasha leader Ante Pavelic entered Austria with a party of up to 1,500 Ustashi and $5-6 million in gold. Other reports show that Pavelic was released after being held in British custody for two weeks, his gold trove was seized by the British, and his companions were turned over to the Yugoslav authorities.[21]

According to still other reports, up to as much as 500 kilograms of gold (more than $560,000) were carried to Austria at the end of the War, with Pavelic's knowledge. The gold was hidden there until it was recovered and used in part to finance anti-Communist activities aimed at Yugoslavia, in part to maintain Pavelic in exile in Argentina, while other portions were used to maintain the Ustashi in Italy. Postwar

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[19] Memorandum from Bigelow to Glasser, July 19, 1946, ibid.; Official Dispatch, November 24, 1950, "Ivan Mestrovic, Branimir Jelic, General Stjepan Pericic," CIA Operational Files. As of July 1946 the Yugoslav Government was continuing to seek to secure access to these accounts, but no further intelligence reports have been found as to the result.

[20] Memorandum from Bigelow to Glasser, July 19, 1946, RG 226, Entry 183, Box 27, Folder 152; Official Dispatch, November 24, 1950, "Ivan Mestrovic, Branimir Jelic, General Stjepan Pericic," CIA Operational Files.

[21] SSU Information Report, Subject: "Jugoslavia: Present Whereabouts of Former Ustashe Officials," October 11, 1946, ibid.; letter from Bigelow to Glasser, October 21, 1946, RG 226, Entry 183, Box 29, 1946. The SSU report concluded that there could be little doubt that the British aided the escape of Pavelic. The Bigelow letter stated that a sum of 150 million Swiss francs, presumed to have been made up largely of gold coins, was impounded by British authorities in Austria. According to a Central Intelligence Group (CIG) Intelligence Report on Ante Pavelic, May 6, 1947 (date of information is January 1947), Pavelic and his party crossed into Austria with gold bars in two trucks, which the Croats handed over to the British, "and so saved themselves;" CIA Operational Files.

intelligence reports also suggest that Ustasha funds in Austria helped to finance the Ustashi anti-Tito partisans based in Austria after the War.[22]

The terms of the Inter-Allied Reparations Agreement, concluded in Paris in January 1946, required that monetary gold found in Germany by Allied forces or recovered from a third country to which it had been transferred by Germany was to be pooled for restitution among the participant nations, and non-monetary gold found in Germany was to be used for resettlement and rehabilitation of non-repatriable victims of German action. The British occupation authorities in Austria did not acknowledge recovery of any monetary gold or non-monetary gold originating with the puppet Croatian Ustasha regime. No gold attributed to the Croatian regime was transferred to the Tripartite Gold Commission.[23]

D. The Ustasha Underground in Rome and Ustasha Gold

According to information gathered at various times by U.S. intelligence, the College of San Girolamo degli Illirici in Rome, which provided living quarters for Croatian priests studying at the Vatican during and after World War II, was a center of Ustasha covert activity and a Croatian "underground" that helped Ustasha refugees and war criminals to escape Europe after the War.[24] British intelligence information of March 1946 also identified San Girolamo as the church for the Ustashi managed by a brotherhood of Croatian priests, the "confraternita di San Girolama." This brotherhood issued identity cards with false names to the fugitive Ustashi, allowing them to evade arrest or detention by the Allies.[25]

Monsignor Juraj Madjerec, identified in intelligence reports as an Ustasha supporter, was head of the College, but the prime mover behind this Ustasha activity in Rome was the secretary of the College, Father Dr. Krunoslav Stefano Dragonovic, who

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[22] CIG Intelligence Report, Subject: "Dr. Ante Pavelich," May 6, 1947, ibid.

[23] In its 1971 Report, the Tripartite Gold Commission did take account of the fate of the 980 kilograms of monetary gold taken from Sarajevo branch of the National Bank of Yugoslavia by Croatian puppet government officials in 1941, made a part of the Croatian National Bank holdings, transferred to the Swiss National Bank in 1944 (see footnote 14 above), and returned to the new Communist Government of Yugoslavia in 1945. The TGC Report also accounts for the 66,400 kilograms of gold in bars and coins (about $6 million) distributed by the Commission to Yugoslavia but without any connection to any other gold attributed to the wartime Croatian Government recovered in the British zone of occupation or elsewhere. The 980 kilograms of gold received by Yugoslavia from Switzerland was not regarded by the Tripartite Gold Commission to be part of the TGC's restitution process. According to the 1971 TGC Report (vol. I, p. 66, and vol. III, pp. 18, 19, 27), Yugoslavia established claims for monetary gold totaling 3,243 kilograms and received in distributions in 1948, 1950, and 1958 from the TGC, a total of 2,064 kilograms of gold (about $2.3 million). In September 1948 Yugoslavia also received from Italy pursuant to the Italian Peace Treaty 8,393 kilograms of gold (about $9.4 million). No gold found in the British zone of occupation of Austria appears to have been included in the Tripartite Gold Pool, according to this 1971 Report.

[24] The College of San Girolamo is located outside the walls of the Vatican and pays Italian State taxes.

[25] British Public Records Office, War Office Files, WO 204/11574. The British intelligence file identified Croatian priest Dominc Mandic as the Vatican representative to San Girolamo.

was also an Ustasha colonel and former official of the Croat "Ministry for Internal Colonization," the agency responsible for the confiscation of Serb property in Bosnia and Hercegovina.[26]

Regarded by U.S. intelligence officers as Ante Pavelic's "alter ego," the Croatian-born Father Dragonovic had been a Professor of Theology at Zagreb University. In 1943 he went to Rome allegedly as the representative of the Croatian Red Cross, but probably to coordinate Ustasha affairs in Italy. Taking advantage of contacts inside the International Red Cross and other refugee and relief organizations, Dragonovic helped Ustasha fugitives emigrate illegally to South America by providing temporary shelter and false identity documents, and by arranging onward transport, primarily to Argentina.[27] U.S. intelligence reports make much of Father Dragonovic's role in helping the Ustashi who sought protection in Rome after the War. He was also reportedly entrusted with the safeguarding of the archives of the Ustasha Legation in Rome, which he hid somewhere in the Vatican, as well as with all the valuables brought out of Croatia by the fleeing Ustashi.[28]

Under Dragonovic's leadership, the Croat underground in San Girolamo built up an effective covert organization which operated an escape service for Croatian nationalists fleeing from the Yugoslav regime. Dragonovic's organization also worked with the "rat line" set up and operated by the U.S. Army's Counter Intelligence Corps (CIC) to help Soviet and East European defectors, informants, and activists escape from Communist-controlled territory.[29] In 1951 Dragonovic worked with the CIC to organize the escape of anti-Communist informant and Nazi war criminal Klaus Barbie to South

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[26] Memorandum from AC of S, G-2 (CI) AFHQ (Allied Forces Headquarters) from AFHQ Liaison (IAI), November 26, 1947, Subject: "Dragonovic, Krunoslav Stefano; Information Report, Subject: "Dr. Krunoslav Dragonovich," July 24, 1952 (date of information is 1945-1952); memorandum from Deputy Director for Plans (CIA) to Deputy Assistant Under Secretary for Security, Department of State, "Dr. Krunoslav Stepan Dragonovich," January 9, 1968, all in CIA Operational Files. Dragonovic's background and his wartime activities, including alleged connections with the Vatican and exchanges with British diplomats, are described, with extensive references to official British and U.S. documents identified in the archives of the two nations, in Mark Aarons and John Loftus, *Unholy Trinity: How the Vatican's Nazi Networks Betrayed Western Intelligence to the Soviets* (New York, 1991), pp. 88-119 (pp. 308-314 for documentary citations). This report is not based on these authors' book nor does it seek to evaluate how they interpreted the many documentary sources they cite.

[27] U.S. Department of Justice, Criminal Division, *Klaus Barbie and the United States Government: A Report to the Attorney General of the United States* (Washington, D.C., 1983), pp. 136-139 [hereafter cited as *The Barbie Report*]; memorandum from Deputy Director for Plans (CIA) to Deputy Assistant Secretary for Security, Department of State, "Dr. Krunoslav Stepan Dragonovich," January 9, 1968, CIA Operational Files. U.S. Army Counter Intelligence Corps reports of 1947 on the extent of Ustasha involvement in the management of affairs at San Girolamo and aid rendered to fleeing Ustasha leaders are described in Susan Headden, Dana Hawkins, and Jason Vest, "A Vow of Silence: Did Gold Stolen by Croatian Fascists Reach the Vatican?," *U.S. News & World Report*, March 30, 1998, pp. 34-37.

[28] Information Report, Subject: "Dr. Krunoslav Dragonovich," July 24, 1952 (date of information is 1945-1952); Information Report, Subject: "Jugoslavia: Present Whereabouts of Former Ustashi Officials," October 11, 1946, both in CIA Operational Files.

[29] *The Barbie Report*, pp. 135-137.

America.[30] In mid-October 1958, a few days after the death of Pope Pius XII on October 9, Dragonovic was ordered to leave the College of San Girolamo by the Vatican Secretary of State.[31] In 1962 the CIC dropped him as an agent "with prejudice, for security reasons and lack of control."[32]

Over the next few years, relations between the Vatican and Communist Yugoslavia improved and were finally normalized in June 1966. Dragonovic, who had broken with Ante Pavelic in 1955, benefited from an amnesty granted by the Tito regime in the early 1960s. In 1967 he traveled to Trieste and walked across the border to Yugoslavia. A few days later he made a speech over Yugoslav radio denouncing the Ustashi and praising the progress made since the end of the War by the Tito regime. The indications are that Dragonovic lived quietly in Yugoslavia where he died in July 1983.[33]

From early 1946 to late 1947, the Ustashi in Rome harbored Ante Pavelic, as well as other Ustasha leaders. Pavelic arrived in Rome in 1946 disguised as a priest with a Spanish passport. For the next two years he reportedly lived at San Girolamo and other quarters in Rome. The support of the Croat underground in Rome was critical for Pavelic's escape from Europe to Argentina. In November 1948 he emigrated to Argentina on the Italian motorship *Sestrire*. In 1957, after an assassination attempt, he moved to Spain, where he died in 1959.[34]

The CIC, which had responsibility for tracking down war criminals, knew of Pavelic's presence in Italy and monitored his activities for nearly two years, attempting to learn his exact whereabouts. In late July 1947, after CIC reported that Pavelic was living in a particular Vatican-owned building in Rome, and after consultations in Washington, the State Department instructed the Supreme Commander of Allied Forces in Italy that "the United States should cooperate with the Italian authorities to the extent necessary in this particular case." The British Government concurred in this action four days later. The CIC agents assigned to monitor Pavelic's activities in preparation for his arrest reported that he was enjoying the protection of the British as well as of the Vatican and advised against unilateral U.S. action to extradite Pavelic to Yugoslavia in order not to

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[30] Memorandum, undated (c. April-May 1983), Subject: "DOJ/OSI Investigation of Klaus Barbie," CIA Operational Files; *The Barbie Report*, pp. 146-151; and James V. Milano, *Soldiers, Spies, and the Rat Line: America's Undeclared War Against the Soviets* (Washington, D.C., London, 1995), pp. 201-206.

[31] Information Report, Subject: "The Priest Krunoslav Dragonovic being asked to leave the College of St. Jerome of the Illirici," December 11, 1958, CIA Operational Files.

[32] Memorandum, undated (probably c. April-May 1983), Subject: "DOS/OSI Investigation of Klaus Barbie," ibid.

[33] What appears to be the public record regarding Dragonovic's last years in Yugoslavia, including his praise for the Tito regime and the religious freedom he found in Yugoslavia, is identified in Aarons and Loftus, *The Unholy Trinity*, pp. 77-78, 86-87, and 143-150.

[34] Information Report, Subject: "The Organization of the Ustashis Abroad," November 4, 1946 (date of information is October 1946); Information Report, Subject: "The Vatican as an Asylum for War Criminals," August 8, 1947 (date of information is July 1947); Information Report, Subject: "Reported Arrival of Ante Pavelic in Argentina," December 2, 1948, all in CIA Operational Files. Aarons and Loftus, *The Unholy Trinity*, pp. 77-78, indicate that Pavelic joined most of the former Ustasha regime in Buenos Aires, including nearly every surviving Cabinet Minister.

lose support among Catholic and anti-Communist émigrés. U.S. military intelligence concurred on the grounds that Pavelic's arrest would alienate the Croatians loyal to the Ustasha cause who were being increasingly employed as informants by U.S. intelligence agencies. In the end, U.S. forces withdrew from Italy without acting decisively to apprehend Pavelic.[35] However, CIC's interest apparently was sufficient to compel Pavelic to leave Rome for a monastery near the Pope's summer residence at Castel Gandolfo, where he remained for several months prior to his departure from Europe.[36]

The figure of 350 million Swiss francs (over $80 million) of Ustasha gold that U.S. intelligence reported in 1946 remains the only attempt to estimate the total financial resources available to the Ustashi at the end of World War II. This figure refers to sums in Italy and Austria and probably does not include those funds sequestered by the Ustasha regime in Switzerland. Moreover, it remains unsubstantiated and may not include some or all of the sums reported elsewhere. Although the amount of the total financial resources available to the Ustasha leadership at the end of World War II cannot be determined, it seems clear from the available information that there was some quantity of gold at their disposal in Rome, Austria, and Switzerland. From the character of the Ustasha regime and the nature of its wartime activities, this sum almost certainly included some quantity of victim gold.

U.S. intelligence reports—many of them uncorroborated and speculative—portray the Croat underground in Rome as making use of a considerable quantity of gold, probably including victim gold, that the Ustashi sent or brought out of Croatia between 1943 and 1945. Sources available to U.S. intelligence authorities varied widely, even wildly, in their estimates of the total value of the gold available to the Croat underground in Rome. The largest estimate of Ustashi treasury reaching Rome was made in the October 1946 U.S. intelligence (SSU) report to the Treasury Department, which estimated that 200 million Swiss francs (about $47 million) "was originally held in the Vatican" before being moved to Spain and Argentina.[37] Another October 1946 intelligence report summarizing information on the whereabouts of former Ustasha officials identified an "Ustashi Financial Committee" living in Rome with a large amount

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[35] Memorandum from Bernard J. Grennan, Chief of Operations, CIC Headquarters, MTOUSA (Mediterranean Theater of Operations United States), to Supervising Agent, CIC Zone Five, July 7, 1947; memorandum from Joseph N. Greene, Jr., Acting U.S. Political Adviser to Acting Supreme Allied Commander, July 29, 1947; memorandum from P.W. Scarlett, British Political Adviser, to Acting Supreme Allied Commander, August 2, 1947; Informal Routing Slip from Major General L.C. Jaynes, Chief of Staff, to Commanding General, MTOUSA, August 8, 1947, with marginal comment by Commanding General; memoranda from CIC Special Agents Louis S. Caniglia and William E.W. Gowen to Officer in Charge, CIC Rome Detachment, August 28 and September 12, 1947; memorandum to Officer in Charge, CIC Rome Detachment, signed by Lieutenant Colonel G.F. Blunda, Assistant Chief of Staff, G-2, November 8, 1947, all in NARA, RG 319, Investigative Records Repository, CIC Dossier XE 00 11 09: Anton Pavelic.

[36] Information Report, Subject: "Reported Arrival of Ante Pavelic in Argentina," December 2, 1948, CIA Operational Files.

[37] Letter from Bigelow to Glasser, October 21, 1946, RG 226, Entry 183, Box 29, 1946.

of gold at its disposal.[38] On the other hand, a report derived from an alleged January 1947 interview with Ante Pavelic at his quarters in the monastery in Rome, claimed the Ustashi had only 3,900 gold Napoleons (some $25,000) in all of Italy.[39]

Ante Pavelic, Father Dragonovic, and other Ustasha leaders in Rome also derived moral and financial aid from many other countries, including from Ustasha sympathizers in the United States.[40] U.S. intelligence was also informed that the Ustashi in Italy were active on the black market.[41] Dragonovic may also have personally profited from his illegal activities, charging refugees as much as $1,500 for false documents and realizing $625 from each refugee he helped transport to Argentina.[42]

E. Postwar Changes in U.S. Policy Toward Croatian Ustasha War Criminals and Escapees

In response to a number of Yugoslav Government requests in the latter half of 1945 to British and U.S. authorities for the return of various Yugoslav nationals, including Croatians, for trial as war criminals, traitors, and collaborators, the U.S. Government in October 1945 took the official position that it would comply with such Yugoslav Government requests provided that it made a "prima facie case of collaboration with the enemy of war criminality" and provided that the individuals were not desired by the Allied governments for trial as major criminals.[43] During the succeeding months, U.S. and British authorities handed back to Yugoslavia those Yugoslav nationals in their custody whose cases had been individually examined and whose return by force had been duly authorized.[44]

The United States recognized the new Communist Government of Yugoslavia in December 1945, and in the following months sought to develop friendly and supportive relations with the Tito regime. By the latter half of 1946 and early 1947, U.S. policy toward the Yugoslav Government grew increasingly cool as a result of the Yugoslav regime's hostile actions, including harassment of U.S. Embassy personnel and accusations of espionage, the arrest and trial of Yugoslav employees of the Embassy on charges of espionage, attacks on unarmed U.S. aircraft over Yugoslavia, Yugoslav efforts

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[38] Information Report, Subject: "Jugoslavia: Present Whereabouts of Former Ustashi Officials," October 11, 1946, CIA Operational Files.

[39] CIG Intelligence Report, Subject: "Dr. Ante Pavelich," May 6, 1947, ibid. This is the same report that described the alleged British Army seizure of two truckloads of bar gold from the fleeing Croatian leaders when they reached Austria in early 1945.

[40] Information Report, Subject: "The Organization of the Ustashis Abroad," November 4, 1946, ibid.

[41] Information Report, October 16, 1950, ibid.

[42] *The Barbie Report*, p. 140; Milano, pp. 52-54; Information Report, Subject: "Irregular Activity of Krunoslav Dragonovic," October 1, 1953, CIA Operational Files. According to a March 1948 report of the U.S. Military Attaché in Argentina (?), quoted in *U.S. News & World Report*, March 30, 1998, p. 36, Ustasha refugees in Argentina were being assisted with funds in a Swiss bank.

[43] Note from the Secretary of State to the Yugoslav Chargé, October 19, 1945, RG 59, Decimal Files 1945-49, 740.00116-EW/8-2845.

[44] Telegram 375 from the U.S. Political Adviser in Caserta (Anglo-American headquarters in Italy), June 8, 1946, ibid., 860H.00/6-846.

to annex Trieste, and Yugoslav unwillingness to settle outstanding claims of American citizens for confiscated property. The brutality of the Yugoslav police and the manifest disregard of human rights violations also contributed to the hardening of the U.S. attitude in other aspects of its relations with Yugoslavia.[45]

The U.S. Government also began to revise its policy on turning over Croatian Ustasha members to the Yugoslav Government. In June 1946 the British Foreign Office proposed that all proved Ustashi found in camps in Italy be surrendered to the Yugoslav authorities, whether or not their surrender had been requested. The British felt that the Ustashi deserved no sympathy and that their surrender to Yugoslavia would give the Communists less ground for complaining that the Chetniks in U.S.-British custody were not being surrendered. Such action would also prevent the Ustashi in Allied detention from becoming a source of embarrassment for the Italian Government once the Allies completed their imminent withdrawal from Italy. The British proposed that Ustashi in displaced persons camps in Italy be removed to prisoner-of-war camps, where they would be screened carefully, after which those whose membership in Ustasha organizations was established beyond doubt would be surrendered to the Yugoslav authorities.[46]

The State Department approved the British proposal to surrender all proven members of the Ustasha organization in Allied camps in Italy in June 1946, but no screening of Ustashi took place under this policy before it was abandoned by the United States in favor of a more limited policy of return of Ustashi.[47] In response to Yugoslav Government complaints in September 1946 that U.S. and British authorities in Germany were failing to turn over suspected war criminals, the United States informed Belgrade in November 1946 that it continued to hold to its policy of returning individuals for whom prima facie evidence had been provided, but found that Yugoslav Government requests increasingly were not accompanied by sufficient means of identification or did not provide adequate details of the crimes committed.[48]

A new U.S. policy regarding the return to Yugoslavia of war criminals, collaborators, and others, including Ustashi, was further defined in guidelines sent to American officials in Berlin, Vienna, Rome, and Belgrade in January 1947. In the future Yugoslav requests for the return of collaborators would be referred to Washington for screening and no persons would be surrendered who appeared wanted for primarily political reasons. No persons would be turned over to Yugoslavia for war crimes prosecution if they were to be tried in U.S. courts or if they were listed on the UN War

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[45] Documentation on U.S. efforts to maintain friendly relations with Yugoslavia, assertion of the rights and immunities of U.S. diplomatic personnel and American citizens in Yugoslavia, and negotiations for the mutual restoration of property and settlement of claims is presented in *Foreign Relations*, 1946, vol. VI, pp. 867 ff. and 1947, vol. IV, pp. 744 ff.

[46] Telegrams 575, June 8, 1946, and 607, June 13, 1946, from the U.S. Political Adviser in Caserta, RG 59, Decimal Files 1945-49, 860H.00/6-846 and 860H.00/6-2046.

[47] Telegram 171 to the U.S. Political Adviser in Caserta, June 23, 1946, ibid., 860H.00/6-2046, and telegram 513 from Belgrade, May 15, 1947, ibid., 740.00116-EW/5-1547.

[48] Note from the Secretary of State to Yugoslav Ambassador, November 4, 1946, ibid., 740.00116-EW/9-2046.

Crimes Commission lists of war criminals and unless the request for them was accompanied by a clear statement of the charge and sufficient evidence.[49]

The changing policy of the United States on the return of war criminals and collaborators to Yugoslavia was further elucidated with respect to the Ustashi in April 1947 when U.S. and British diplomats presented to the Yugoslav Government notes explaining U.S.-British policy regarding the surrender of Yugoslav "quislings" from Allied camps in Italy. The notes stated that the two governments were "determined to apprehend and surrender to the Yugoslav Government all quislings requested by the Yugoslav Government to whose surrender the two first named governments agree and who can be found in camps under Allied control." An additional phrase, "and proved members of Ustashi," was deleted by agreement of the State Department and British Foreign Office.[50] The Department believed that the Yugoslav Government was meting out unduly harsh treatment to its political opponents and using charges of collaboration as a weapon in an increasingly severe campaign of repression against opposition elements. The Department of State felt that commitments to surrender proven members of the Ustashi were no longer necessarily applicable and withdrew its concurrence in the surrender of Ustashi as a group. The Department told the British Embassy in May 1947:

> "It is our belief that, in a matter involving so basic a humanitarian principle as the protection of persons under our jurisdiction from victimization through the perversion of justice, we cannot, in the light of our subsequent experience, be bound by earlier expressions of intention."[51]

The situation of the Yugoslav prisoners of war in Allied camps in Italy caused increasing concern for Britain and the United States by early 1947. Allied troops left in Italy were insufficient to control the Yugoslav prisoners, who numbered 21,000 in British camps alone. The Allies feared that the Yugoslavs in these camps, including many Ustasha war criminals, would be turned over to the Italian Government when the Italian Peace Treaty was signed later in 1947. In April 1947 the British Government announced that there were still about 10,000 displaced persons in Italy under U.S.-British responsibility, of whom 7,000 were Yugoslavs, including 77 Yugoslav quislings and traitors. Of these, 22 were turned over to Communist Yugoslav authorities. Also in April 7,000 former Chetnik Yugoslav soldiers were transferred to the British zone of occupation of Germany, and by June the Yugoslav Government in Belgrade claimed that, of 950 Yugoslav nationals that it had requested the Allies to turn over, fewer than 50 had actually been delivered.[52]

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[49] Telegram 213 to the U.S. Political Adviser in Berlin, January 27, 1947, ibid., 740.00116-EW/1-1547. Printed in *Foreign Relations*, 1947, vol. IV, p. 753.

[50] Despatch 783 from Belgrade, April 9, 1947, RG 59, Decimal Files 1945-49, 740.00116-EW/4-947; telegram 17 from Belgrade, March 11, 1947, ibid., 740.00116-EW/2-1447, and telegram 177 to Belgrade, March 28, 1947, ibid., 860H.00/3-2847.

[51] Memorandum from Walworth Barbour (Office of European Affairs) to Solly-Flood of the British Embassy, May 19, 1947, ibid., 740.00116-EW/5-547.

[52] Telegram 1317 from Belgrade, February 14, 1947, telegram 733 from Rome, April 4, 1947, and telegram 714 from Belgrade, June 26, 1947, *Foreign Relations*, 1947, vol. IV, pp. 762 and 784;

F. Tracking the Fate of the Wartime Ustasha Treasury

U.S. official historical records have thus far yielded only an imperfect understanding of the fate of the wartime Ustasha treasury, including the gold and valuables stolen from the Jewish, Serb, and Sinti-Romani victims of the Ustasha ethnic cleansing policies and the German deportations and murders of Jews and others. A full accounting of the events of the Ustasha period in Croatia and the postwar flight of its leaders, funded to some extent by the remains of the Ustasha treasury, has to be found in the archives of other nations and possibly the Vatican.[53]

At the London Conference on Nazi Gold held in December 1997, the Croatian delegation reported on the work thus far of the special commission "created to investigate historic facts about the property of Nazi victims and "to finally establish facts related to the property seized by the Nazis from States or individuals and to review measures taken so far and those to be taken in the future with an aim of returning or compensating this property." The Croatian delegation reported that the work of the special commission will be facilitated by the fact that "the 1941-1945 archives have been largely preserved." The present Croatian State Archives contains extensive materials on the Holocaust in Croatia and Jewish property in particular, including the results of pilot archival project carried out by the Croatian State Archives between 1978 and 1985 and based on 7,027 archive boxes and 67 boxes of files that established a register of 40,000 Fascist victims and anti-Fascist fighters (including 6,537 Jews) killed in concentrations camps and prisons.[54] An estimated 1,000 to 1,200 Holocaust survivors "eligible for compensation" remained in Croatia.

The Croatian delegation also informed the London conferees that the gold reserve of the Croatian Ustasha regime consisted of 45 cases of gold of unknown or unstated value. Thirteen cases of gold were "taken abroad on 7 May 1945," and 32 cases of gold were "hidden" in the Franciscan Monastery in Zagreb until February 1946 when it was "handed over to the National Bank of Yugoslavia, Zagreb Branch Office, Department for People's Property of the Government Presidency of the People's Republic of Croatia." The Croatian delegation stated that there were 22 lists specifying the gold, but the lists have not been found, and further documentation regarding the gold was assumed to be

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memorandum from Solly-Flood to Barbour, June 14, 1947, RG 59, Decimal Files 1945-49, 740.0011-EW/6-1447. A significant portion of the documentary record in official U.S. and British records for 1945, 1946, and 1947 is elaborated in some detail and provides the basis for a journalistic, and sometimes speculative, account of the changing U.S. and British policies toward the apprehension of Croatian Ustasha quislings and collaborators and their return to Yugoslavia in Aarons and Loftus, *Unholy Trinity*, pp. 70-87 (pp. 304-308 for documentary citations).

[53] At the December 1997 London Conference on Nazi Gold, Ian F. Hancock of the International Romani Union, issued a statement that noted that "scholarship on the Romani victims of the Holocaust is in its infancy." He pointed out that it is almost impossible to identify the amount of personal wealth stolen by the Nazis from the Romani people, and that even the total number of Romani victims of the Holocaust is unknown.

[54] The Croatian delegation explained that an agreement had been concluded with the U.S. Holocaust Memorial Museum in Washington regarding the duplication of this material.

with the National Bank of Yugoslavia. The delegation concluded, on the basis of documents in the archive of the Jewish community of Zagreb, "as well as those kept elsewhere in Croatia," that the gold and jewelry taken from Jews in Croatia up to the end of October 1941 amounted to 1,065 kilograms (worth more than $1.2 million).[55]

There is some evidence that at least part of the Croat Foreign Ministry archives was sent to the Vatican at the end of the War.[56] In his memoirs, James V. Milano, Commander of the 430th Counter Intelligence Detachment of the U.S. Army's Counter Intelligence Corps, admits to the wholesale destruction of records relating to the operation of the Army's rat-line and his dealings with the Croat underground.[57]

There are other possible sources of historical information on the fate of the Croatian State treasury. Most if not all of the Croatian Ustasha leaders and soldiers who fled the approaching Partisan forces in April and May 1945 escaped through the British zone of occupation of Austria. British military and intelligence records may be able to describe Ustasha activities in occupied Austria, including the transport of any of the Croatian treasury. Swiss banking records may contain additional information beyond what has already been published regarding the movement of gold and other assets from the Ustasha treasury. Ustasha gold may also have been sequestered in private or commercial accounts that escaped the notice of postwar auditors. Perhaps the best documentation for the wartime activities of the Ustashi lies in the archives of the Independent State of Croatia, if the records still exist. Examination of these records would help in determining the amount of victim gold stolen by the Ustasha regime and establishing its disposition at the end of the War. The bulk of the Ustasha Croat State archives, however, apparently remain within the territory of the former State of Yugoslavia, where they are presently unavailable to Western researchers.

An examination of the documentation prepared by the Communist regime for the September-October 1946 war crimes trial in Zagreb might give an indication of what might available, but this documentation would be incomplete and, given the highly political nature of the trials, could be used only with caution. The trial, which resulted in the conviction of Croatian priests and others, was extensively covered in the Zagreb newspaper *Vjesnik*, and facsimiles of hundreds of archival documents from the wartime

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[55] Statement by the Croatian delegation to the London Conference on Nazi Gold, December 2-4, 1997. The British Government, which convened the conference, plans to publish the full record of the conference in 1998.

[56] Historical experts at the Vatican have pointed out that at his war crimes trial in the autumn of 1946 in Zagreb, evidence was produced that Archbishop Stepinac of Zagreb had received the Croatian Foreign Ministry records at the end of the War. Vladimir Dedijer, *The Yugoslav Auschwitz and the Vatican: The Croatian Massacre of the Serbs During World War II* (Buffalo, N.Y., 1992), pp. 414-416, includes a photocopy of a receipt showing that Archbishop Stepinac received eight sealed boxes from the Croatian Foreign Ministry at the end of the War. Dedijer, at one time prominently associated with the Tito-led Communist regime of Yugoslavia, asserts that these boxes were somehow transported to Rome, presumably to College of San Girolamo. Dedijer further speculates that the boxes contained gold from victims of the Ustasha murderers.

[57] Milano, pp. 220-221.

Croatian government were published after the trial.[58] The extensiveness of the documentation indicates the documentary resources available to the Communist prosecutors at the Zagreb trial, but does not give confidence of the objectivity of its use. The published record included testimony alleging the existence of gold stolen from the victims of Ustasha arrest and the concealment of Croatian foreign affairs records after the War at the Zagreb bishopric.

In addition to the evidence of covert Ustasha activity inside the College of San Girolamo, there is the question of the attitude of the Papal administration. During World War II, the reigning Pope, Pius XII, maintained a studied neutrality that has been the subject of considerable historical controversy. His attitude toward the Croat Catholics inside the College of San Girolamo and elsewhere has also been the subject of much speculation. Although no evidence has been found to directly implicate the Pope or his advisers in the postwar activities of the Ustashi in Italy, it seems unlikely that they were entirely unaware of what was going on. Vatican authorities have told us they have not found any records that could shed light on the Ustasha gold question. More information on the Ustashi and any treasury they may have carried with them into exile may exist in the archives of the Argentine security services, and might emerge from ongoing research by the Argentine Historical Commission. The existence of a long-standing Croat-Ustasha community in Argentina almost certainly attracted the attention of the Argentine security services before, during, and after the War.

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[58] Joza Horvat, ed. *Djokumenti o Protunarodnom Radu i Zlocinima Jednog Dijela Katolickog Klera* (Zagreb, 1946).

Annex I

New Information About Victim-Origin Gold at the Reichsbank[1]

The Preliminary Study on *U.S. and Allied Efforts To Recover and Restore Gold and Other Assets Stolen or Hidden by Germany During World War II* examined how the Nazi government looted gold from individual victims whom it persecuted and how that gold was disposed of during and after the war. Since publication of the Preliminary Study in May 1997, U.S. Government researchers have uncovered additional information that: 1) provides further details about the sale of victim gold by Nazi Germany's central bank both to foreign countries and to German domestic banks; 2) demonstrates what the industrial firms that converted victim gold into bullion for the Reichsbank knew about the origin of such gold; and 3) provides the most detailed data currently available concerning the value of the gold (and other personal loot) that the SS robbed from its victims and delivered to the Reichsbank; these figures yield an estimate for total victim gold shipments that is markedly higher than all previous estimates.

The Preliminary Study described the Reichsbank's practice of purchasing from the SS gold (including dental fillings), jewelry, precious metals, securities, and currencies that the SS looted from its victims at the killing centers and concentration camps. It noted that there were 78 known shipments of SS loot to the Reichsbank between August 1942 and the end of the war. Each shipment was originally placed in the "Melmer" account, named for SS Captain Bruno Melmer, who delivered the shipments. The Reichsbank then opened and sorted the contents of these shipments, incorporating currencies, securities, and gold and silver coins and bullion into its own holdings and disposing of the remaining contents in the following manner: small items made of precious metals, such as rings and gold teeth, were sent to the Prussian State Mint, smelted into bars, then returned to the Reichsbank, which incorporated them into its holdings; precious stones, jewelry and larger items made of precious metals were sent to the Berlin Municipal Pawn Shop, which arranged for the more valuable items to be sold abroad for foreign currency, and sent the remainder to the Degussa Company to be smelted. Once the contents of the shipments were processed, the Reichsbank credited their value in Reichsmarks to the SS account at the Ministry of Finance.

The Reichsbank used the gold it acquired from the SS shipments in the same way it used the gold Germany looted from the central banks of the nations it occupied: it sold the gold to domestic and foreign banks in order to acquire foreign currency needed to finance Germany's war effort. The May 1997 Preliminary Study cited specific evidence of SS-looted gold that the Reichsbank sold to the Deutsche Bank and to banks in Switzerland and Italy. The report also presented the first-ever conclusive proof that victim-origin gold (from the Melmer account) that had been incorporated into the Reichsbank's reserves and remained there at the end of the war was transferred by the United States after the war to the gold pool administered by the Tripartite Gold Commission (TGC). During the past fifty years, the TGC has distributed all but 5.5 tons of the gold in the gold pool to the central banks of European nations that were looted by Germany during the war. The proof uncovered by U.S. Justice Department researchers of "tainting" of the TGC gold pool with victim-origin gold has provided the factual foundation for the present joint U.S-U.K. appeal to the TGC claimant nations to permit the undistributed gold balance to be applied for the benefit of victims of Nazi persecution.

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[1] This section of the report was prepared by the U.S. Justice Department's Office of Special Investigations (OSI), based on research and analysis conducted by OSI personnel.

As the May 1997 Preliminary Study detailed, when the U.S. Army seized the remaining Reichsbank treasure in April 1945, the Melmer account still held 207 containers of unprocessed SS loot. These containers, some of which held hundreds of pounds of gold teeth and dental fillings, represented part of the contents of 21 SS shipments. In addition to the Reichsbank treasure, the U.S. Army seized the records of the Reichsbank's Precious Metals Department and captured that department's chief, Albert Thoms, who had been responsible for receiving and processing the shipments of SS loot. Included in the seized records were receipts prepared by the Reichsbank showing the amount in Reichsmarks that was credited to the SS for some of the contents of the first 43 SS shipments of loot. A November 1946 report by the Office of the Military Government United States (OMGUS) on these receipts noted that they totaled RM 23,455,781.96, "of which RM 1,866,329.18 is gold coins and RM 3,018,062.13 gold bars."[2]

Unfortunately, OMGUS did not complete a study of the Reichsbank records pertaining to the Melmer account prior to transferring custody of the records in 1948 to the newly established Bank deutscher Länder and its first director, Albert Thoms. Although the U.S. did microfilm many of the Reichsbank records prior to relinquishing them, it did not microfilm the Melmer receipts. The United States Government urged the German authorities last year to attempt to locate these records and they have searched for them. However, to date, neither the Bundesbank (the successor to the Bank deutscher Länder) nor the German Government has succeeded in locating the Reichsbank records that OMGUS turned over to Thoms in 1948.

In April 1997, as a result of the U.S. Government interagency effort directed by Under Secretary Eizenstat, the microfilms that OMGUS made of part of the Reichsbank records were discovered by U.S. Government personnel in records that had recently been transferred to the U.S. National Archives by the U.S. Treasury Department. It was not possible to complete an analysis of the voluminous microfilmed records prior to release of the Preliminary Study in May 1997. In the intervening months, however, several researchers not affiliated with the U.S. Government have studied the microfilmed Reichsbank records to determine how much gold the SS deposited in the Melmer account. The conclusions of these studies differ significantly: the most conservative study, conducted by the Swiss Independent Commission of Experts (also known as the Bergier Commission) and confined to the gold bullion and coins delivered directly by Melmer, concluded that a total of $2.5 million in gold had been deposited in the Melmer account; German sociologist Hersch Fischler concluded that the value of the gold in the SS shipments totaled $3 million, while American researcher Sidney Zabludoff's report for the World Jewish Congress put the total value at $4 million.[3] (Figures cited are in wartime values, when the price of gold was set at $35 per ounce. The price of gold is currently approximately nine times higher.)

Late in 1997, it was revealed that another set of microfilms of selected Reichsbank records existed in a private collection in Vienna. These microfilms had been made at the Bank deutscher Länder during the 1950s by Herbert Herzog, a Viennese businessman and Holocaust survivor who was attempting to trace the gold from the Italian central bank that had been taken to Germany late in the war. In 1998, at the request of Under Secretary Eizenstat, a Justice Department historian sought and obtained permission to review the Herzog microfilms in Vienna, which remain in the possession the Herzog family there; although he was not allowed to copy any

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[2] Preliminary Study, p. 167.

[3] Swiss Independent Commission of Experts, "Gold Transactions in the Second World War: Statistical Review With Commentary," December 1997, p. 14, which also cites the Zabludoff and Fischler reports.

of the records on the microfilms, he was permitted to take extensive notes. This review revealed that, while the Herzog microfilms do include some Reichsbank records that were not microfilmed by OMGUS, those records do not pertain to the Melmer account. In addition to copying Reichsbank records, however, Herzog also microfilmed postwar studies that Albert Thoms produced based on those records. One study of Diverse Goldbarren, i.e., gold bars that were not of a high fineness, shows that during a six-month period beginning in May 1943, 17 such bars in the Melmer account were released to the Dresdner Bank, while the Deutsche Bank acquired 22 such bars from the Melmer account; the Reichsbank sent another 4 bars from the Melmer account to Rome, presumably to the Italian central bank.[4] In addition, three bars originating from the Melmer account that this Thoms report lists as having been sent for resmelting had numbers that match the numbers on bars that were seized by U.S. forces at the end of the war and turned over by the United States to the Tripartite Gold Commission in 1948.

Of particular importance among the microfilmed studies produced by Thoms is one that is titled "Recapitulation of Proceeds: Melmer Deliveries." This undated study of the proceeds from the Melmer shipments of SS loot contains 29 columns. The first column, which has no heading, contains the numbers one through nine, with each number followed by an amount in Reichsmarks. The amount following number one is identical to the amount in the Reichsbank's first receipt showing payment to the SS for some of the contents of its first three loot shipments, the only receipt of which a copy is known to exist.[5] Moreover, the total amount of Reichsmarks that Thoms listed at the bottom of the first column matches the figure of RM 23,455,781.96 given in the November 1946 OMGUS study of the Melmer receipts.[6] Consequently, it appears that the numbers in this column are based upon the receipts prepared by the Reichsbank showing the amount in Reichsmarks that was credited to the SS for some of the contents of the first 43 SS shipments of loot. The remaining 29 columns have headings indicating categories of loot in the SS shipments, including the following: "Foreign Exchange (Bank Notes)"; "Gold Bars"; "Silver Bars"; "Alloy Bars"; "Gold and Silver Coins"; "Purses, knives and forks, jewels, pearls, gold and diamond rings, etc., watches"; "Dental Gold, broken gold, silver, etc." Each column contains a total Reichsmark value for the entries under each heading. The total of all the columns is RM 23,173,430.11.[7]

It is unknown what documents Thoms used as the basis for columns 2 through 29 in his report, but it does not appear that the sums in these columns represent proceeds that are included in the receipts listed in the first column. When it received the SS loot shipments, the Reichsbank

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[4] The section of this report concerning the wartime gold trade in Turkey addresses the purpose for which these gold releases were made to the Deutsche Bank and the Dresdner Bank.

[5] A copy of this receipt was used as an exhibit in a war crimes trial before the U.S. Military Tribunal at Nuremberg and consequently still exists in those records: Nuremberg Document 3949-PS, Verwertung von Noten, Gold, Silber und Schmuckstücken zu Gunsten des Herrs Reichsministers der Finanzen (19 September 1942), NARA Microcopy M-897, roll 39, frames 604-605.

[6] The Director of the Finance Division of the U.S. Military Government also mentioned the sum of RM 23,455782 as representing the net proceeds from the first 44 Melmer shipments. See "Report: SS Loot and the Reichsbank by Colonel Bernard Bernstein dtd 30 October 1945," NARA, RG 260, OMGUS, AG004.2 Banking, Box 8, Folder 3. The figures in both this report and the November 1946 report were probably provided by Thoms, who was employed by the Finance Division to analyze the Reichsbank records.

[7] Since the heading of the last column is not fully legible but may be "Expenses," the RM 16,629.11 total listed under that heading has not been included in the total given here for columns 2 through 29.

sorted their contents and remunerated the SS for those items that were most easily disposed of first, while credit for those items whose disposal was more complicated—because, for example, they required resmelting or marketing by another agency—had to wait until their value could be determined.[8] In addition, there were fifteen shipments of SS loot whose contents were no longer in the Melmer account at the end of the war and also were not included in the receipts for the first 43 shipments. Fourteen of the columns in the Thoms report pertain to contents of SS shipments that would have been sent to another agency to be smelted or sold, e.g., jewelry, dental gold, and broken gold and silver. It therefore appears likely that the amounts in columns 2 through 29 in the Thoms report represent proceeds from the contents of the first 43 shipments that had to be sent to other agencies for processing, as well as proceeds from the contents of later shipments that were processed before the end of the war.

If this analysis of the Thoms report is correct, then the report shows that the total value of the proceeds that the SS received for its loot shipments to the Reichsbank was RM 46,629,212.07 or $18,809,686.19.[9] According to the November 1946 OMGUS study of the receipts for the first 43 SS loot shipments to the Reichsbank, the total value credited to the SS for the gold bullion and coins in those receipts was RM 4,884,391.31 or $1,970,307.10. In columns two through 29 of Thoms's report, there are five columns pertaining solely to gold (two with the heading "Gold Bars," two with the heading "Gold Coins," and one column titled "Gold Rings") that have a total value of RM 4,894,610.71 or $1,974,429.49. Adding this sum to the amount of gold bullion and coins reflected in the receipts in column one produces a total of RM 9,779,002.02 or $3,944,736.60 that was credited to the SS for gold in its loot shipments. In addition, however, there are seven other columns in the Thoms report with headings that list gold along with other valuables, e.g., "Gold and Silver Coins," "Alloy Bars," "Dental Gold, broken, gold, silver, etc." and "Diamonds, watches, gold and platinum." The total value for these columns is RM 3,509,618.91 or $1,415,739.78. Thus the total value that the Reichsbank credited to the SS for the gold in its loot shipments was between $3,944,736.60 and $5,360,476.25. Given that in wartime Germany gold was far more expensive than silver and that the total value of gold seized from Jews appears generally to have dwarfed the total value of silver seized from Jewish victims,[10] it can be safely assumed that gold accounted for at least half (and probably much more) of the value of the columns listing gold along with other valuables, particularly since 70 percent of the total value of these columns is accounted for by the columns titled "Dental gold, broken gold, silver, etc." and "Alloy Bars" (i.e., bars made of gold and silver). Consequently, the total

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[8] For example, the first receipt, which covered the first three Melmer shipments of SS loot, only gives the value of the gold, silver, and currency in those shipments but not of the jewelry, which the receipt notes was "not yet examined and evaluated." Preliminary Study, p. 167.

[9] The exchange rate used here is the same as that employed by the Swiss Independent Commission of Experts: RM 2.479 per $1.00.

[10] For example, a wartime SS report on the loot taken from Jews during the Operation Reinhard program in Poland valued gold at RM 2,800 per kilogram and silver at just RM 40 per kilogram. Consequently, although the report notes that the Operation Reinhard program turned in 18,733.69 kilograms of silver ingots as opposed to 2,909.68 kilograms of gold ingots—or more than six times more silver than gold—it lists the total value of the silver ingots as only RM 749,347 or nine percent of the RM 8,1476,610 value listed for the gold ingots. See Nuremberg Document NO-059: "Report on the Administrative Development of the Operation Reinhardt," signed: SS and Police Leader Odilo 4nik, undated (ca. January 1944), attaching NO-062: "Detailed List of Money, Precious Metals, Jewels, Other Valuables and Textiles, signed by Globocnik and Wippern (Undated)," *Trials of War Criminals before the Nuernberg Military Tribunals under Control Council Law No. 10*, Nuernberg 1946-1949 [hereafter "Green Series"], 14 vols. (Washington, D.C., 1950), v. 5, *U.S. v Pohl*:725-731.

amount credited to the SS for the gold in its loot shipments to the Reichsbank can be very conservatively estimated as at least $4,652,606.48.[11]

It should be kept in mind that this estimate of $4,652,606.48 pertains only to the amount that the Reichsbank apparently credited to the SS for the gold in its loot shipments. This figure appears somewhat low in view of the fact that SS and Police Leader Odilo Globocnik reported in 1944 that he had shipped RM 9,883,658.12 or $3,986,953.66 in gold bullion and coins to the SS in Berlin to be forwarded to the Reichsbank just in the course of Operation Reinhard, the SS program for exploiting Jewish property and labor and murdering millions of Jews in killing centers in Eastern Poland.[12] The gold shipped by Globocnik, which was deposited in the Melmer account, did *not* include the gold looted by the SS from its victims at Auschwitz and at the concentration camps and slave labor camps outside Lublin District in Poland. It is quite possible that some of the SS-looted gold that the Reichsbank sent to third agencies for processing was not returned to the Reichsbank before the end of the war.

It should also be borne in mind that the gold in the SS loot shipments to the Reichsbank probably represented only a fraction of the gold looted from individual victims of persecution under the Nazi regime, since the victims of the killing centers and concentration camps had already been deprived of most of their valuable possessions before their arrival at the camps. Nor was the SS the Reichsbank's only source of gold looted from individual victims of persecution. For example, beginning in 1939, Jews in Germany and in areas occupied by Germany were forced to turn in jewelry and other personal items containing gold to the Berlin Municipal Pawn Shop, which sent the lesser-quality items to industrial smelters to be melted and refined. The fine gold extracted from the items was held by the smelter in a special account at the disposal of the Reichsbank, which would make regular withdrawals. The name of this account was the "J" account, or sometimes, more explicitly, the Judengold or Jewish gold account.[13]

The primary smelter used by the Reichsbank to transform gold articles in the SS loot shipments into bullion was the industrial firm of Degussa (Deutsche Gold- und Silber-Scheideanstalt). In 1998, at the request of Under Secretary Eizenstat and after the World Jewish Congress had reached an agreement with Degussa officials granting access to Degussa files **to a** researcher from the United States to be designated by the WJC, a Justice Department historian briefly reviewed Degussa's wartime smelting records and correspondence files. Unfortunately, the available smelting ledgers only identify gold sent to Degussa by its gross weight, the date of receipt, and the originating agency, with no description that might indicate whether the gold consisted of personal possessions. Similarly, the smelted gold that Degussa sent back to the

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[11] This $4,652,606.48 figure was reached by adding half of the value of the columns listing gold along with other valuables (i.e., half of $1,415,739.78 or $707,869.79) to the value of the columns that only list gold ($1,974429.49) plus the value of the gold coins and bullion in the receipts listed in Column One ($1,970,307.10). This assumes that gold items accounted for only half the total value of the seven columns that list gold along with other valuables.

[12] Although it is possible that Globocnik exaggerated some of his "accomplishments" in his reports to Himmler, he does state that this amount of gold was "handed over on receipt to the SS Economic and Administrative Main Office." It seems unlikely that he would inflate a figure for which he could be held accountable. See Nuremberg Documents NO-059 and NO-062, Green Series, 5:725-731.

[13] See, for example, Bundesarchiv-Zwischenarachiv Dahlwitz-Hoppegarten, Collection R 8 X (Records of the Reichsstelle für Edelmetalle), folder 15, reports of gold stocks held in inventories of various Scheideanstalten, viz.: 5 June 1941 report of the Staatliche Sächsische Hütten- und Blaufarbenwerke regarding "Judengold Fonds 'J'" noting that 50 kg. had been placed at the Reichsbank's disposal in May, reducing the account to 18.0768 kg.

Reichsbank is identified only by date and the weight of the entire amount being sent, so that it is apparently impossible to match up a particular delivery of gold to Degussa with a subsequent amount of smelted gold sent to the Reichsbank. The only exceptions are entries from the period 1939-1941 containing the abbreviation "Jd.," which, in a few documents, is expanded to Judengold (Jewish gold), evidently referring to the gold confiscated from German Jews during that period.[14] These "Jd" and "Judengold" notations indicate that the Degussa company was aware at the time that it was receiving gold seized from Jews.

The Justice Department's review of Degussa's correspondence files proved even more disappointing. All of the correspondence from the period 1942-1943, when the Reichsbank began sending articles from SS loot shipments to Degussa to be smelted, has apparently been destroyed. One significant letter remains, written to Degussa's director on February 8, 1945 by the head of Degussa's Berlin branch plant, where the Reichsbank sent much of the gold in the SS shipments that needed resmelting. In this letter, the head of the Berlin plant reported on his efforts to evacuate the stocks of precious metals in Berlin and noted that he was in the process of destroying the Geheimakten or confidential records of the Sonderring, a special group within Degussa's Berlin organization that was established in 1942 to deal with precious metals. This letter thus reflects that records pertaining to the processing of victim-origin precious metals by Degussa for the Reichsbank were intentionally destroyed near the end of the war, which provides

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[14] Degussa archives, Frankfurt am Main, Germany, Scheidebuch Zweigniederlassung Berlin entries with the notation "Jd." from May 1939 (Nota 60, 61), June 1939 (Nota 69), May 1940, June 1940, July 1940, August 1940, September 1940 (also notation "Jd'gold"), December 1940, January 1941, February 1941, March 1941, April 1941 (also notation "Jdgold"), May 1941, June 1941 (also "Jd'gold"), and entries with the notation "Judengold" from August 1940, January 1941, September 1941, and December 1941. These references were brought to the attention of the Office of Special Investigations by Dr. Ralf Banken, an independent researcher who, with the permission of Degussa, is studying the Degussa smelting records from the Nazi period. Dr. Banken theorizes that these notations were made for accounting purposes, because during this period Degussa charged the Reich a reduced rate for smelting, a practice that ceased after 1941.

additional grounds to conclude that Degussa was aware that some of the materials it had been processing had not been legitimately obtained by the Reichsbank.[15]

[15] In addition to permitting Dr. Ralf Banken free access to its records pertaining to its wartime gold smelting operations, Degussa has this year commissioned Dr. Peter Hayes of Northwestern University, a noted expert on German business history, to write an independent history of the company's activities under the Nazi regime, including not only its involvement in the conversion of loot taken from Nazi persecutees but also its acquisition of companies confiscated from Jewish owners, its employment of forced labor, and its role in supplying the poisonous "Zyklon B" hydrogen cyanide gas used in the mass murder of Jews at Auschwitz.

Annex II

Summary of the May 1997 Preliminary Report

Economic Blockade

During World War II, the United States and its Allies waged a combination of military and economic warfare against Germany and its Axis partners. The military battles are well-known and their outcomes clearly defined. But the equally complex economic battles to isolate Nazi Germany and choke off its capacity to wage war, though often conducted bloodlessly in offices and conference rooms, have received far less attention despite their critical importance. How far and how vigorously to press this economic war upon the key neutral nations that supplied Germany with vital war-related materials and services were continuing issues for U.S. policy-makers and a matter of difficult negotiation between the United States and its Allies.

During the early years of World War II, even before it entered the War, the United States worked with its Allies to establish an economic blockade against Germany. The campaign to curtail commerce between Germany and the neutral nations was designed to thwart the movement of German assets outside Germany to fuel its engines of war. Through 1941, the U.S. Treasury Department took the lead in severing financial and commercial relations with Germany and preventing German use of neutral nations or firms to circumvent American freeze orders. The U.S. put in place procedures for the licensing of commercial and financial transactions of the neutrals and applied "blacklists" to persons and businesses dealing with the enemy.

"Monetary gold" looted by Germany from the central banks of occupied nations of Europe had an important role in financing and prolonging the German war effort. The United States joined its Allies in efforts to deter the neutrals from trading and trafficking in looted gold and hard currency. According to estimates made by American officials at the end of the War, Germany had about $200 million in monetary gold (now roughly $1.9 billion) in 1940, following its absorption of Austrian and Czechoslovakian gold. During the War, Germany seized from eleven occupied European nations monetary gold worth an estimated $579 million ($5.6 billion today). From $398 million to $414 million went to Switzerland, either to the Swiss National Bank's own account or the account of other countries at the Swiss National Bank. The bulk of this gold was looted from the central banks of occupied Western Europe. At least some of the gold traded abroad contained a portion confiscated from individuals, both concentration camp victims and other civilians.

While the Allies did not know the exact size of gold flows during the War, they were well aware of its broad scope and they were determined to diminish it. The Allies issued a declaration in January 1943 warning neutral countries that forced transfers of property in occupied Europe would not be recognized, and that such transfers that took place through looting or any other form of transaction would be declared invalid. In February 1944 the United States, Britain, and the Soviet Union extended this general policy to the looted gold of the defeated nations, declaring that they would not buy gold from any nation that had not broken relations with the Axis or that had acquired gold from a defeated or Axis country.

Germany's war effort depended significantly upon its imports of raw materials and goods from the neutral nations. Switzerland was Nazi Germany's banker and financial facilitator, taking and transferring German gold—most of it looted—and providing Germany with Swiss francs to purchase needed products. Switzerland also supplied Germany with key war materials such as arms, ammunition, aluminum, machinery and locomotives. Moreover, Germany was able

to mitigate slightly the effect of Allied bombing by moving some arms production to safety beyond the Swiss frontier. Sweden was a critical trading partner of Nazi Germany. Its wartime exports of ball-bearings to Germany were vitally important, and for a time Sweden supplied Germany with 40 percent of its iron ore until other European sources reduced that dependency. Spain and particularly Portugal provided Germany with invaluable supplies of wolfram (tungsten) required in the steel-hardening process. Spain also supplied iron ore, mercury, and zinc. Turkey exported very scarce chrome ore to Germany, where the valuable mineral was in short supply.

Allied economic warfare efforts were aimed at closing this commerce down both by choking off its financing and by direct military intervention. But it was not until the fortunes of war had shifted irreversibly against the Axis in 1944 that these efforts finally began to succeed. The persistent reluctance of Switzerland and other neutral states to curtail or halt their profitable commerce in war materials with Germany, even to the very end of the War, angered U.S. policy-makers.

Through much of the War, the U.S. and its Allies could not enforce a fully effective blockade against Germany. The continuing trade between Germany and the neutral nations could only be curtailed through such economic leverage as the Allies could apply in the negotiation of war trade agreements with the neutrals. Switzerland's neutrality posed a particularly difficult problem. Switzerland resisted Allied efforts to reduce or halt its exports to Germany and to curb, if not end, the transshipment of German materials across its borders. Surrounded by Axis forces, Switzerland's financial relationship with Germany clearly exceeded that of other neutral countries. This contrast became clearest in the final year of the War when the German threat to Switzerland had clearly diminished.

Sweden, Portugal, Spain, and Turkey were also important commercial partners of Germany, and Allied efforts to throttle trade and financial exchanges between them and Berlin remained difficult. The United States was also determined to halt German trade and the movement of German assets to Central and South America. Argentina posed a particularly difficult problem in terms of preventing financial exchanges and war-oriented commerce. It was only with Allied military advances on both the western and eastern fronts over the last year of the War that the neutrals reconsidered their ties and trade with Germany.

During the War, the Allies also encountered growing evidence of the systematic seizure by the Nazis of gold and other assets from European Jews and other persecuted groups. The Holocaust became more apparent as it gathered massive and deadly momentum, and the Allies sought to respond to the extortion of ransom for individuals or small groups of Jews under Nazi arrest. These issues are only part of the larger question that faced the United States and its Allies of how to respond to the Holocaust and the plight of millions of victims of Nazi persecution.

The Safehaven Program

As the tide of battle turned decisively in favor of the Allies on the eastern front with the Soviet victory in the Battle of Stalingrad in early 1943 and on the western front with the D-Day invasion in the summer of 1944, the focus of economic warfare against Germany also shifted. While maintaining the fundamental goal of blockading and defeating the Nazi regime, the Allies increasingly aimed their efforts at preventing the enemy from moving its resources outside Germany and precluding the regime's revival at a later time.

The goals of the U.S.-led Safehaven program (as it came to be known since its goal was to deny any safehaven for Nazi looted assets) were to block Germany from transferring assets to

Switzerland and the other neutral nations, to ensure that German wealth would be available for the reconstruction of Europe and for the payment of reparations to the Allies, to enable properties looted by the Nazis in occupied Europe to be returned to their owners, to prevent the escape of key German personnel to neutral havens, and above all, to deny Germany the capacity to start another war. There was general agreement within the U.S. Government and with its Allies regarding these overall objectives. But internal differences among U.S. agencies meant the President never received consistent advice about how strenuously to push these Safehaven measures and how far to use wartime economic power to force Switzerland and the other neutrals to adhere to the program. Moreover, splits between the Allies exacerbated the problem.

The Allied Safehaven program was formally launched at the United Nations Monetary and Financial Conference at Bretton Woods in July 1944, the main business of which was the creation of the World Bank and the International Monetary Fund. The delegates also took up measures to prevent Germany from secreting assets in the neutral nations. The Conference adopted Resolution VI, which called for immediate measures by neutral nations to prevent any disposition, transfer, or concealment of looted gold or other assets from the occupied nations of Europe. Resolution VI quickly became the key element in the Allied Safehaven program aimed at the neutral nations.

Bureaucratic conflicts plagued the Safehaven program, the administration of which was shared by the State Department, the Treasury Department, and the Foreign Economic Administration (FEA). Britain, which depended upon wartime commerce with the neutrals and was intent on expanding its postwar trade, was reluctant to match the relatively more aggressive American approach. Partly for this reason, the Safehaven negotiations that the United States and Britain conducted with the neutral nations in 1944-45 proceeded slowly and deliberately.

The Safehaven program achieved many of its goals, including some success in preventing the diversion of Nazi assets abroad—and thus in precluding a postwar Nazi resurgence. The Office of Strategic Services (OSS), the new U.S. wartime intelligence agency carved out of existing executive agencies by the President, gave the American Safehaven project a powerful tool for uncovering the secret underside of German economic relations with the neutrals. Safehaven provided the United States and Britain with unprecedented understanding of the wartime economies of the neutral states. It also set the scene for the postwar efforts by the Allies to achieve restitution and reparation payments for the compensation and recovery of nations that had been occupied by Germany.

Allied efforts to advance Safehaven objectives in Switzerland were especially critical, both because of that nation's location in the heart of Europe and its close financial and commercial ties with Germany. At the end of 1944, State Department senior officials, including Secretary of State Stettinius, reviewed U.S. relations with Switzerland. They concluded that Switzerland's traditional neutrality, its protection of American POWs and other interests, and its humanitarian efforts were of such importance that they overshadowed Switzerland's key role in financing what remained of German commerce. Therefore, they decided that the United States and its Allies should not take extreme measures to force Switzerland to comply with Safehaven objectives—or even to end trade in military goods with Germany and halt transshipments from Germany to Italy. The view of the diplomats at the State Department (shared by the British) was not one shared by FEA, Treasury, or the Justice Department, which favored far more aggressive action to gain Swiss cooperation. The Joint Chiefs of Staff also preferred definitive steps to throttle all commerce with Germany as well as to stop rail transshipments across Switzerland. All agencies deferred, however, to the State Department's diplomatic leadership.

The increasing certainty of the victory of Allied armies ultimately persuaded most of the neutrals to reduce or end trade with Germany and meet Safehaven objectives. According to then-Under Secretary of State Dean Acheson, Switzerland was the slowest to do so. A potential breakthrough with the Swiss came in February 1945 when President Roosevelt's Administrative Assistant Lauchlin Currie led the American delegation to the Allied-Swiss trade and Safehaven negotiations. Britain and the United States welcomed liberated France into these talks, launching the triumvirate that would conduct all postwar negotiations on these issues. Currie and his colleagues seemingly achieved a substantial reduction in Swiss exports to Germany and acknowledgment of Safehaven objectives for the blocking of German assets in Switzerland. But following subsequent discussions with Reichsbank Vice President Emil Puhl, the Swiss reneged on its commitment to the Allies to stop German gold transfers and freeze German assets.

Congressional hearings designed to probe the conduct of Safehaven and to prod the Executive Branch into more aggressive action were held by Senator Harley Kilgore of West Virginia in the summer of 1945. Information from intelligence reports and the Kilgore hearings reveal the record of Swiss reluctance to completely break its ties with Germany even with the end of the War. Allied exchanges with the Swiss through the remainder of 1945 demonstrated Switzerland's unwillingness to embrace Allied proposals to turn German assets in Switzerland to the benefit of ravaged Europe and stateless victims of the Holocaust and other Nazi crimes.

Potsdam Conference

After V-E Day, a new President and cabinet faced the issues of reparations, restitution, and the reconstruction of war-shattered Europe. At the Allied Conference at Potsdam in July and August 1945, President Truman, British Prime Ministers Churchill and Attlee (who succeeded Churchill mid-way through the Conference), and Soviet Marshal Stalin and their top political advisers became engaged with the looted assets issue as they agreed upon policies for dealing with a defeated Germany. The issue of German external assets (assets outside of Germany)—estimated by U.S. experts in mid-1945 at nearly $750 million (nearly $6.7 billion today)—and the monetary gold ($579 million) thought to have been looted from the central banks of the occupied nations of Europe came up for high-level decision-making, along with the more general questions of reparations from Germany and the resources needed to reconstruct Europe after the War. The Allied Control Authority managing occupied Germany had a key role in American planning for the handling of external assets and looted gold. It would also provide the legal authority for claiming custody over Germany's external assets. American planning continued to emphasize the essential Safehaven security objective of denying such external assets to any groups seeking to resuscitate Nazism.

During the Potsdam Conference, Allied experts abandoned an American proposal for a Four-Power declaration assuming custody of the German assets located in neutral nations. They settled instead for an undertaking by Truman, Attlee, and Stalin assigning to the Allied Control Council the control of the disposition of these assets—along with a decision by Stalin not to claim for the USSR any of the assets located in Western Europe. In the weeks following the Potsdam Conference, American policy-makers favored the issuance by the Allied Control Council for Germany of a vesting decree under which it would claim legal authority for the German assets in neutral countries. President Truman directed that such a decree be sought. The debate over the decree, finally issued by the Council in November 1945 as Allied Control Council Law No. 5, sharply divided the Allies and even American policy-makers over the viability of such an assertion of authority under international law and its overall effectiveness in dealing with neutral states.

Truman, Churchill, and Attlee also reached agreement at Potsdam on a common policy for the disposition of the monetary gold found in Germany (estimated to be at least $250 million in the U.S. Zone alone, some $2.4 billion today), as well as the gold that Germany had sold abroad to finance its war machine. They adopted an American proposal to establish a "gold pot" into which the Allies would collect all the looted monetary gold from Germany and from the neutrals, and distribute the resulting amount to the former occupied nations from whose central banks monetary gold had been looted. (By "monetary gold," the Allies had in mind gold that had been wrongfully removed from central banks—as distinct from "non-monetary" gold owned by individuals). Stalin unilaterally abandoned all claims to the gold found by his Western Allies (but of course the Soviet Union controlled and plundered much of the remaining wealth of the countries the Red Army occupied).

At the 18-nation Paris Reparations Conference in November and December 1945, the Allies agreed on more detailed policies based upon the Potsdam undertakings for the collection and distribution of looted monetary gold, and the liquidation of German assets located in neutral nations. The concept of a Gold Pool was confirmed, with the United States, Britain, and France to assume responsibility for managing its resources and distributing its proceeds through a Tripartite Gold Commission (TGC). On the basis of an American proposal, the conference also agreed on a fund of at least $25 million ($222 million today) for the support of "non-repatriable persons"—a concept clearly intended to include the Jewish survivors of Nazism as well as other victims without a government to which they could turn. With the strong backing of President Truman, the fund was to be made up of the non-monetary gold found in Germany by the Allied occupation forces, together with some share of proceeds from German assets to be ceded by neutral nations in forthcoming negotiations. The June 1946 Five-Power Conference on Reparation for Non-Repatriables also recommended that heirless assets belonging to victims of Nazi crimes be added to this fund.

Postwar Allied-Swiss Negotiations

Early in 1946, the United States, Britain, and France invited Switzerland to send representatives to Washington to discuss the issues flowing from the Paris Reparations Conference. The urgent desire on the part of Britain and France to revive commerce with Switzerland after the War made them reluctant to join in tough economic measures against Switzerland and caused serious policy differences with the U.S. For its part, Switzerland held to its own interpretation of international law and would not accept Allied claims to German assets and monetary gold in Switzerland. Within the U.S. delegation headed by senior Treasury official Randolph Paul, differences arose from the outset between the more cautious State Department approach and Treasury Department officials who advocated a strong line against the Swiss and the use of sanctions if negotiations failed. On the eve of the negotiations, Secretary of State Byrnes, acting on the counsel of State Department colleagues, turned aside Treasury advice to use the full force of economic sanctions in order to change Switzerland's stance.

From the outset of the negotiations in early March 1946, U.S. chief negotiator Paul made clear that the basic objectives of the negotiations with the Swiss were to forestall a Nazi resurgence by eliminating German assets in Switzerland and to make these assets available for reparations and European reconstruction. After more than a month of exchanges, the Allied-Swiss negotiations had gotten nowhere. The Swiss rejected Allied claims to monetary gold sold by Germany to Switzerland during the War as well as to German assets. They refused even to acknowledge that they had received any looted monetary gold during the War, an assertion they reversed some time later. The Swiss asserted that as a conquering nation, Nazi Germany had in

any event a valid claim of ownership under international law to gold it had looted as war booty from European central banks. The Allies, uncertain of the legal basis of their claims to German external assets under international law, instead appealed to the moral conscience of the Swiss. They pointed out that liquidated German assets were intended for the reconstruction of war-torn Europe and, at least in part, for the relief of the desperate "non-repatriable" victims of Nazism. Still, the Swiss held fast and suggested that the impasse be referred to international arbitration.

On the eve of the Washington negotiations between the Allies and the Swiss, State and Treasury Department officials estimated that up to $579 million of monetary gold ($5.6 billion today) had been looted in Europe by the Nazis and that Germany shipped around $400 million in gold to Switzerland during the War. The State Department estimate in the Fletcher Report was that of this amount, $276 million in gold was sold by Germany to the Swiss National Bank and an additional $138 million was "washed" through the Swiss National Bank and eventually re-exported to Portugal and Spain. Of the $276 million in gold that the State Department estimated that Switzerland purchased from Germany, it concluded that "the larger part was looted gold." State also concluded that part of the gold that Switzerland sold during the War to Portugal and Spain could have been looted gold. Using different calculations, Treasury officials estimated that Switzerland likely received $289 million in looted gold.

The Allied negotiators at the Washington conference began with an estimate of at least $200 million and as much as $398 million in looted monetary gold in Switzerland at the end of the War. But in the face of Swiss intransigence and the Allied interest in resuming commercial relations with Switzerland, as well as a new postwar U.S. emphasis on rebuilding war-torn Europe, they reduced their negotiating position first to $130 million ($1.3 billion in today's gold values)—the amount of the Allied estimate of the looted Belgian central bank gold. In late April 1946, the Allies sought to break the stalemate with a proposal calling for Switzerland to provide $130 million in monetary gold and giving the Allies two-thirds of the revenues from the liquidation of German assets in Switzerland. The head of the Swiss delegation, Walter Stucki, responded by breaking off the negotiations. The amount the Allies sought was then reduced to $88 million, the amount of looted Belgian gold ultimately acknowledged by the Swiss.

American negotiator Seymour Rubin blamed the debacle on the intransigence of the Swiss negotiators over the amount of gold to be turned over to the Allies. Acting Secretary of State Acheson was briefed on the situation. American intelligence reports confirmed the inflexibility of the Swiss negotiating position on the basis of instructions from the government in Bern.

Throughout the discussions, the Swiss negotiators stood on their interpretation of international law and Swiss law. They showed little inclination to accept Allied arguments about the practical need or moral obligation to return to war-ravaged Europe some substantial portion of the profits they had earned in wartime commerce with Germany. The U.S. Government was reluctant, as were the Allies, to bring economic sanctions to bear in order to alter the Swiss response. Thus, American negotiators were left to pursue the fundamental Safehaven goal of preventing the resurgence of Nazism at the expense of some more meaningful Swiss contributions to early restitution and assistance for war-ravaged Europe.

The negotiations resumed in early May 1946 with a two-fold Swiss proposal. One part provided for a Swiss payment of $58.1 million for the monetary gold in Switzerland ($566 million today). The U.S. Government decided to accept this $58 million figure based on the fact that it was two-thirds of the $88 million amount the Swiss conceded they had in looted Belgian gold. This, however, was far less than the $200 million presented by State and Treasury at the

opening of the negotiations, and even less that the $276 million estimated by the State Department's in-house Fletcher Report to have been the amount of gold Switzerland had purchased from Germany.

The second part of the agreement was to divide the results of the liquidation of German assets on a 50-50 basis. U.S. estimates of German external assets in Switzerland ranged from $250 million to $750 million ($2.1 billion to $6.1 billion today), compared to $250 million conceded by the Swiss. No total amount of assets was agreed to, nor would the Swiss give the Allies control over the identification of the assets.

The American negotiators sought the advice and concurrence of the relevant cabinet-level officials. Randolph Paul and his delegation discussed the negotiations and the final Swiss proposal with Secretary of Treasury Vinson, Secretary of War Patterson, Senior Assistant Secretary of State Clayton (who claimed to speak on behalf of Secretary Byrnes), and with Senator Harley Kilgore. Paul sought to find out if the U.S. Government leadership wanted to resort to economic sanctions to achieve a better agreement. According to records of these meetings, all the top officials commended the American negotiators (although Senator Kilgore, who was initially assured by U.S. negotiators that Switzerland was surrendering two-thirds of the "fairly provable" looted gold in its possession, was shortly to change his mind) and recommended acceptance of the Swiss proposal, rather than applying greater pressure on the Swiss. After the British and French Governments had also agreed, the Allied-Swiss Accord was signed in Washington on May 26, 1946 in the form of a text with a number of side notes, including a commitment by the Swiss to look "sympathetically" at assisting stateless victims through the recovery of heirless assets for their benefit.

Cabinet-level support of the Allied-Swiss (Washington) Accord was soon reinforced by the White House. Several days before the signing of the Accord, Senator Kilgore addressed a sharp letter to President Truman noting the various high estimates used by American negotiators, strongly protesting the poor terms of the agreement, and asking that negotiations be broken off and the issue taken to the United Nations. Truman acknowledged Kilgore's letter but turned to Secretary of the Treasury John Snyder (who had succeeded Vinson in May, after the signing of the Accord). Snyder rejected Kilgore's arguments. In early July, Snyder drafted a letter for President Truman to send to Senator Kilgore strongly endorsing the agreement. Mid-level State Department officials drafted a letter for Acting Secretary Dean Acheson to respond in similar fashion to a well-publicized message from Congressman Joseph Baldwin in August 1946. Both Senator Kilgore and Congressman Baldwin asked President Truman why government negotiators had settled for so little when the Swiss had acquired $300 million in looted gold during the War. On behalf of the State Department, Acheson stated that "there was no reasonable evidence that Switzerland had purchased $300 million of gold looted by Germany," despite government analyses to the contrary. In addition, in a letter of July 3, 1946, President Truman assured Senator Kilgore that "of the amount of looted gold purchased from Germany, about two-thirds of the amounts fairly provable will be returned by the Swiss." The reality was that far less was returned.

Almost immediately after signing the Washington Accord, the U.S. Government began the process of unblocking frozen Swiss assets in the United States. At the same time, serious problems arose between the Allies and Switzerland over Swiss implementation. Before the Swiss would be willing to proceed with the liquidation of German assets, they insisted the Allies would need to establish a fair Reichsmark-Swiss franc rate of exchange. Until agreement on the exchange rate was reached, the Swiss would make no payment to the Allies for distribution to the Inter-Allied Reparations Agency (IARA) for reconstruction or to the International Refugee

Organization (IRO) to benefit stateless victims. Because of such differences, the Swiss implemented only the first part of the agreement, that dealing with monetary gold. They promptly paid the required 250 million Swiss francs ($58 million) in gold into the Tripartite Gold Pool. But it took until 1952 to reach a final agreement on the terms and procedures for the liquidation of German external assets.

Between 1947 and 1951 there was no resolution of the exchange rate issue, and the Swiss raised a series of new impediments to progress. These impediments included a demand that the U.S. unblock the assets of German companies seized during the War but which the Bern government claimed were actually Swiss-owned. Switzerland also raised concerns about the precedent of expropriating German assets and insisted that owners' rights be protected through some guarantee of compensation. As a result of agreement on various exempted categories between Allied and Swiss negotiators, the sum of German assets was reduced from $230 million to $115 million. After initially refusing to make any advance to the IRO, the Swiss offered to advance up to 50 million Swiss francs ($11.7 million) as called for in the 1946 Accord. However, the U.S. rejected this offer, fearing that acceptance would remove all sense of urgency regarding the larger issue of Swiss liquidation of German assets. Ultimately, under pressure from members of Congress and others, the U.S. convinced the Allies to accept a 20 million Swiss franc ($4.7 million) advance in 1948. When the Allies renewed their interest in 1949 in obtaining additional sums for the benefit of the refugees, however, the Swiss refused to make further transfers pending the settlement of other outstanding issues from the Washington Accord.

State Department officials in Washington came to believe that the Swiss never intended to implement the agreement. They believed the agreement was "unworkable" and the cause of "difficulties" in U.S.-Swiss relations. Moreover the 1946 Accord was creating difficulties in U.S. relations with the new West German state under Konrad Adenauer. State Department officials feared that the payment of compensation to German owners of liquidated assets in Switzerland would lead to pressures from many different German groups for compensation for other wartime losses, thereby creating an onerous burden on West Germany's budget. Thus, American officials questioned the wisdom of complicating U.S. relations with Germany in order to extract a few more francs from Switzerland. In the fall of 1950, U.S. negotiators proposed to their Allied colleagues public rejection of the 1946 Accord as unworkable and Allied withdrawal from its implementation. The British and French strongly resisted such a course of action, needing the hard Swiss currency the Accord would provide. The Accord remained in force, but unimplemented.

After several failed attempts, the Allies and Switzerland finally agreed in the spring of 1951 on revised terms for the 1946 Accord. The new West German Government became a key figure in these negotiations even as it began a long series of actions to attempt to compensate Jewish victims of Nazism. Direct German-Swiss negotiations were undertaken which took into account Germany's wartime external debt to the Swiss and other efforts to compensate its own citizens. An Allied-Swiss agreement was finally reached in August 1952, which called for a lump-sum settlement of 121.5 million Swiss francs ($28 million)—$170 million today—for liquidated German assets in Switzerland. This $28 million was far less than that foreseen in the 1946 Washington Accord. This final lump sum settlement was reduced by the amount of the 1948 advance payment made by Switzerland to the IRO—20 million Swiss francs ($4.7 million)—making the total 1952 payment 101.5 million Swiss francs ($24 million). Of this $24 million, the Allies first allocated another $3 million to the IRO. Later, when Portugal's contribution was not forthcoming, the Allies allocated another $3.5 million to the IRO. This left approximately $17 million, which went to the IARA for reconstruction and reparation. As part of

the German-Swiss agreement of August 1952, West Germany agreed to reimburse Switzerland for the 121 million Swiss francs it had settled upon with the Allies, and arranged Swiss financing to meet its commitment. Thus, over six years after the 1946 Washington Accord, this 1952 agreement was effectively paid for by Germany.

Switzerland's aggregate contribution to war-shattered Europe, including the $58 million in monetary gold paid out in 1946 and the final settlement in 1952 of $28 million from external German assets, amounted to about $86 million. On monetary gold, this contribution contrasted with State and Treasury Department estimates ranging from a minimum of $185 to $289 million in looted monetary gold; with the evidence of at least $200 million presented by the Allies at the outset of the negotiations to the Swiss; and with the $130 million the Allied negotiators informed the Swiss they were liable to restore to the Allies during the course of the negotiations (representing the value of the looted Belgian gold alone). On German assets, it contrasted with a range of $250 to $500 million in total German assets that the U.S. estimated to be in Switzerland at the beginning of 1946. Switzerland did provide substantial trade credits to European nations in order to restore commerce. However, all of this must have been overshadowed, at least in the eyes of the Allied negotiators, by the more than $12 billion in Marshall Plan assistance that the United States had by 1952 poured into rebuilding Europe's economy.

The willingness of American policy-makers during the War to benefit from Swiss neutrality, while tolerating Swiss resistance to Allied economic demands, was matched in the early postwar period by growing U.S. and Allied acceptance of actions by the Swiss and other neutral nations in the overriding interest of postwar recovery and European unity. The onset of the Cold War, the immediate need to contain the Soviet Union, and the need to support a democratic West Germany allied with the West put a premium on new security considerations. This imperative also limited the willingness of the United States to press the neutrals on unresolved Safehaven and restitution issues, and diminished the leadership role that America had taken during the wartime in this arena.

The U.S. Army and the Discovery, Accountability, and Security of German Monetary Gold

When the American armies entered Germany in the spring of 1945, they discovered large amounts of gold hidden by the Germans, particularly at the Merkers salt mines, where the Reichsbank had shipped about 400 million Reichsmarks in gold in an effort to hide it from the Allies closing in on Berlin. The gold had been looted from central banks in German-occupied countries, individual civilians and victims of Nazi persecution. By that summer much of it was stored in the Reichsbank building in Frankfurt in the custody of the Foreign Exchange Depository (FED), a section of the Office of Military Government United States (OMGUS) of the American occupation force in Germany. Between 1945 and 1948 the FED collected, guarded, inventoried, and distributed to various countries nearly $300 million in gold bullion and gold coins ($2.9 billion today). The FED worked with Allied governments, occupation authorities, and the Tripartite Gold Commission in inventorying this collection (consistent with official definitions of monetary and non-monetary gold) and making distributions as agreed.

Discovery and Disposition of Non-Monetary Gold From the Victims of Nazi Persecution

Within months after the occupation of Germany by Allied troops, U.S. military authorities learned that the German Reichsbank had incorporated gold looted from the occupied

nations of Europe into its gold reserve, as well as some gold (including jewelry, watches and even smelted dental gold) that the Nazi SS stripped from Jews and other persecutees. An elaborate Reichsbank program of converting the gold and valuables of camp victims into official German accounts was known to American authorities after the war. The Reichsbank established the "Melmer" account, named for SS-Hauptsturmfuehrer Bruno Melmer, into which the SS deposited looted gold and other assets confiscated from Holocaust victims and other civilians. Whatever might be the total amount of victim gold in the German gold reserve, the scale of the SS plundering of camp victims was made clear by the amount of SS gold and other valuables uncovered by the U.S. Army at the Merkers mine in 1945. Some of the victim gold in the Reichsbank gold reserves came from persecutees killed in concentration camps or elsewhere, while some was taken by the Nazis from other civilians. There is clear evidence that gold looted by the Nazis from individuals and camp victims was systematically received, classified, sold, pawned, deposited, or converted and smelted by the Reichsbank into gold ingots and sent to the Reichsbank monetary gold reserve along with gold looted elsewhere in Europe. The smelted SS gold was indistinguishable in appearance from gold bullion stolen from central banks across Nazi-occupied Europe.

Some of this victim gold has been traced as part of German wartime gold sales to Switzerland and Italy. An analysis of one Prussian Mint smelting of looted Dutch guilders in 1943 notes that 37,000 fine grams of gold from the SS loot were added to that particular smelting. Of the bars that resulted from this smelting, 83 percent were traded to the Swiss National Bank, the rest to Italy. Thus, it is clear that the bullion traded to Switzerland and other neutral countries included some of this victim gold. At the same time, there is no evidence that the Swiss or other neutrals knowingly accepted victim gold. According to captured German records, packages of jewelry identified in documents as coming from Jewish victims were sent by diplomatic pouch to the German Legation in Bern for pickup by German agents, who then traded the jewelry for industrial diamonds and currency critical to the German war effort.

It is also clear that victim gold entered the postwar Gold Pool organized by the Tripartite Gold Commission. Caches of smelted victim gold, including gold teeth, jewelry and Jewish religious items—along with gold coins taken from individuals—were recovered at the Merkers mine and elsewhere in Germany. This study provides no evidence that American officials ever assayed (analyzed chemically) the gold bars to be added to the Pool, despite a 1946 dispatch from U.S. diplomat Livingston Merchant raising the issue. Instead, they allowed appearance rather than origin to define gold as monetary when in fact some of it was derived from gold valuables taken from concentration camp victims and other civilians. In deciding to include gold coins and bars without mint markings, there is no doubt that the U.S. Government consciously contributed gold and coins at Merkers belonging to concentration camp victims and other civilians to the TGC Gold Pool.

The amount of victim gold misdirected into the Gold Pool and subsequently distributed by the TGC to claimant countries has not been quantified. Nor can it be established from our study how much victim gold was seized by the Nazis, how much entered the German gold reserve and was used in wartime transactions, or later fell into Allied hands. It was likely that a relatively small proportion of the total gold looted from central banks and recovered by the Allies after the War was victim gold, but that scarcely lessens the sense of a final grim indignity added to the toll of Nazi barbarity. Paradoxically and poignantly, the hasty measures taken by the U.S. and its Allies to distinguish between monetary gold supposedly taken from central banks, and non-monetary gold supposedly taken from individuals, were motivated in part by a decision by

the Paris Reparations Conference in January 1946 to ensure that non-monetary gold would be used to provide immediate assistance to Jews and other stateless refugees.

Tripartite Gold Commission

The TGC was established in September 1946 in accordance with the decisions of the Paris Reparations Agreement of January 1946. Located in Brussels, its task was to review and adjudicate the claims from governments (not individuals) for the restitution of looted monetary gold recovered in Germany or acquired from the neutrals in their negotiations with the Allies. Composed of representatives of the United States, Britain, and France, the TGC was to ensure that each claimant country would receive restitution from the Gold Pool assembled by the Allies for the Commission in proportion to its loss of monetary gold at the hands of the Germans. Ten nations made claims upon the TGC: Albania, Austria, Belgium, Czechoslovakia, Greece, Italy, Luxembourg, the Netherlands, Poland, and Yugoslavia. The Commission made its first distribution of $143 million from the Gold Pool in October 1947, with allocations to France, Belgium, the Netherlands, and Luxembourg. Other payouts were made to Austria, Italy, Czechoslovakia, and Yugoslavia in 1947 and 1948. A second round of allocations was made by the TGC between 1958 and 1966. A payment to Albania was made as recently as October 1996. Overall payouts of 329 metric tons then worth nearly $380 million (today about $4 billion) have been made to claimant nations; of this amount, $264 million came from the FED. Because claims exceeded recovered looted gold, claimant countries received about 65 percent of their original claims. Approximately six metric tons worth about $70 million in today's gold values remains under Commission control in the Federal Reserve Bank of New York and the Bank of England.

Bank for International Settlements

More than $4 million ($39 million today) of the monetary gold in the TGC Gold Pool was acquired by the Allies from the Basel-based Bank for International Settlements (BIS) as a result of a settlement in May 1948 resolving Allied assertions that the BIS had accepted looted gold from Germany in partial settlement of wartime financial exchanges. A recent BIS study confirms the considerable amount of looted Nazi gold they accepted from Germany. The wartime activities of the BIS, and its apparent role as a financial facilitator for Nazi Germany in its foreign commerce, had attracted wartime suspicion and prompted a postwar investigation on the part of the United States and its Allies. Some senior officials in the U.S. Government even suggested it to be dismantled because of its wartime connections with the Nazis.

Heirless Assets

On June 14, 1941, pursuant to the Trading with the Enemy Act of 1917, President Roosevelt froze the assets of certain designated foreign nations and their nationals, including Germany and its citizens, a fair number of whom were Jews. Shortly after World War II, the U.S. Government returned the property of Holocaust victims to the survivors or their heirs, pursuant to sections 9 and 12 of the Act.

In 1946, the U.S. Alien Property Office had about $400 million in enemy property under its supervision (an amount eventually appreciating to $900 million), including financial assets of citizens who were also Nazi victims. Some $495 million of confiscated German and Japanese assets were turned over to the War Claims Fund for compensating U.S. citizens for various war-related losses and claims. Demonstrating its commitment to taking action as well as pressing other nations to do the same, the Truman Administration supported passage of a 1946 law which returned the assets of enemy citizens who were persecutees and who had survived the war.

However, the 1946 law did not deal with those Nazi victims who had died heirless. The lack of such a law had even become an issue in Allied-Swiss negotiations, with the Swiss citing the lack of U.S. action on heirless assets as a basis for their inactivity. In a side letter to the 1946 Washington Accord, the Swiss had made a commitment to examine "sympathetically" the transfer of heirless assets in Switzerland to the Allies for their use in providing assistance to stateless Nazi victims. From July 1946 until August 1952, the constant tension in U.S.-Swiss relations over implementation of the Washington Accord caused American negotiators to give only intermittent support to recovering the assets in Switzerland of Nazi victims who died without heirs. American officials were uncertain about the magnitude of such assets. In the negotiations leading up to August 1952 agreements, State Department officials reacted skeptically to the Swiss assertion that there were no heirless assets remaining in Switzerland. The United States insisted on obtaining another Swiss commitment on heirless assets in the event that the Swiss discovered such assets in the future. In January 1960 the U.S. Embassy in Bern presented a démarche to the Swiss Government. The Swiss response was not encouraging and no further representations were made. However, three years later, a Swiss law came into effect requiring all Swiss financial entities or persons to report any assets that belonged to Nazi victims.

In 1954, after several failed attempts in previous years, the U.S. Congress amended the Trading with the Enemy Act to address the issue of heirless assets. A new Section 32(h) of the Act gave designated charitable successor organizations authority to receive heirless property to rehabilitate and resettle survivors of Nazi persecution. One such organization was the Jewish Restitution Successor Organization (JRSO).

Section 32(h) originally contained a $3 million limit on the amount given to successor organizations for distribution. This amount was based on an estimate supplied by the Office of Alien Property. By 1957, several thousand claims had been reviewed.

During Congressional hearings several years later, it was reported that only 500 claimants were able to satisfy the applicable standards of proof of ownership required by the amendment. Difficulty continued in meeting the strict standard and in 1962, Congress amended the statute, replacing the $3 million limit with a $500,000 lump sum, an amount designed to provide rapid settlement without requiring proof of specific claims. In 1963, President Kennedy issued Executive Order 11087 which provided the lump sum payment to the JRSO out of the War Claims Fund.

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